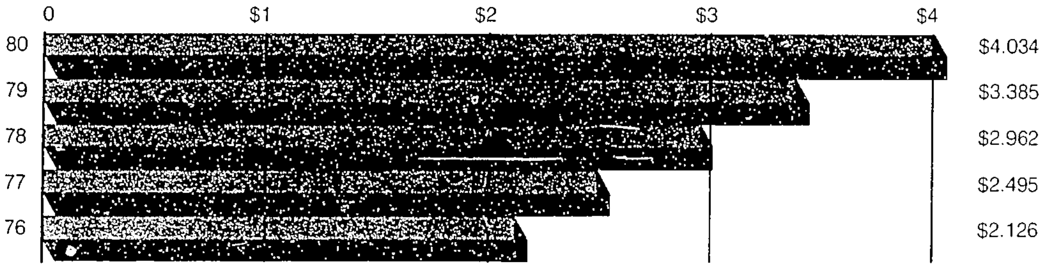
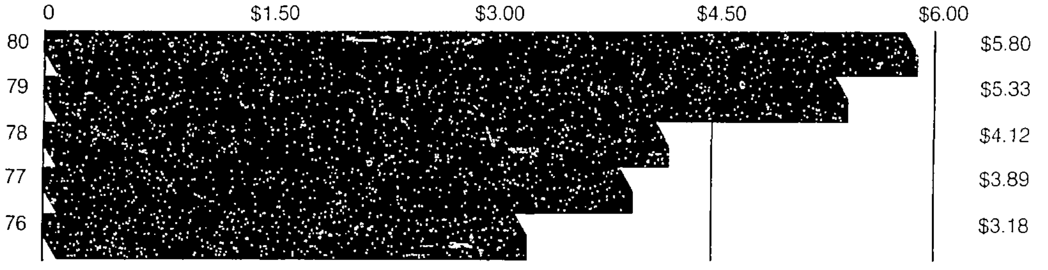

Dayton Hudson
Corporation
Annual Report
for 1980
...A Business of People

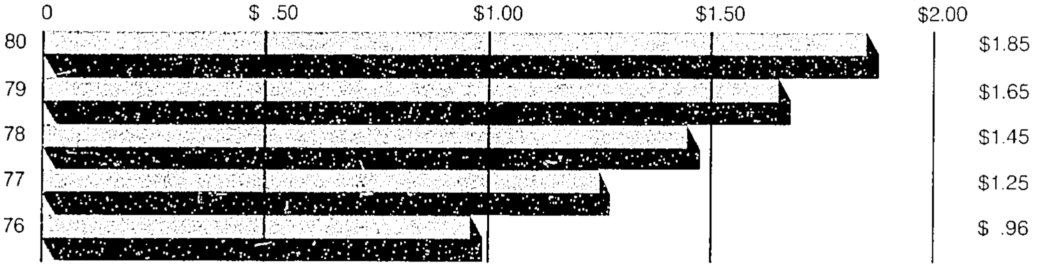
Revenues
(BILLIONS)



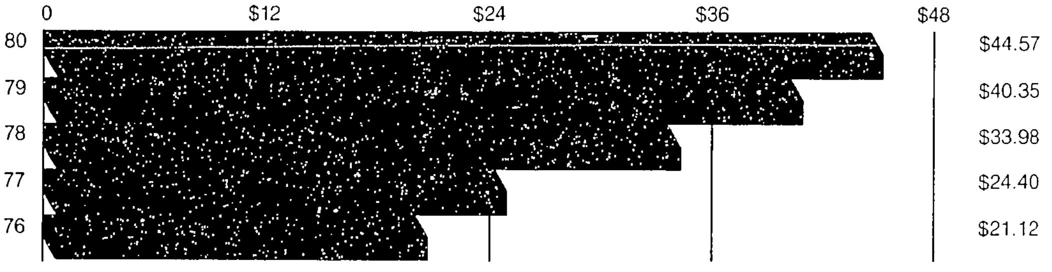
Net Earnings Per Share
(CONTINUING OPERATIONS)



Cash Dividend Paid Per Share



Shareholders' Investment Per Share



Contents

Dayton Hudson Corporation

Dayton Hudson Corporation is a national diversified retail company operating through four principal business segments: Target low-margin stores, Mervyn's softlines stores, department stores (Hudson's, Dayton's, Diamonds, John A. Brown) and specialty merchandisers (B. Dalton Bookseller, Lechmere, Dayton Hudson Jewelers). For a complete description of Dayton Hudson's operating companies and their locations, see pages 38-39.

Cover: ***Polly Pearson, sales consultant with Dayton's department store at Southdale shopping center in Minneapolis—one of the more than 70,000 full- and part-time employees of Dayton Hudson Corporation to whom this annual report is dedicated.***

Highlights

	1980 52 Weeks Ended January 31, 1981	1979 52 Weeks Ended February 2, 1980	Percent Increase
Continuing Operations:			
Revenues	**$4,033.5**	$3,384.8	19%
Earnings Before Income Taxes	**$ 250.3**	$ 240.7	4%
Income Taxes	**$ 112.1**	$ 114.2	
Net Earnings	**$ 138.2**	$ 126.5	9%
Net Earnings Per Share	**$ 5.80**	$ 5.33	9%
Cash Dividend Paid Per Share	**$ 1.85**	$ 1.65	12%
Net Earnings Per Share From Discontinued Real Estate Operations	**$ .36**	$ 2.77	
At Year-End:			
Shares Outstanding	**23,875,931**	23,742,874	
Number of Shareholders	**11,815**	12,332	
Shareholders' Investment	**$1,066.4**	$ 962.6	
Retail Square Feet	**32,538,000**	25,781,000	
Number of Stores	**831**	661	

All dollars in millions, except per share amounts.

To Our Shareholders:

Dayton Hudson Corporation achieved record Retail earnings and revenues in 1980, despite a difficult economic environment that slowed earnings growth.

- Earnings from Retail operations were $5.80 per share, an increase of 9% over the $5.33 per share reported last year. Total Retail revenues increased 19%, while revenues from stores open longer than 12 months were up 5% over last year.
- Consolidated net earnings, which include results from both Retail and discontinued Real Estate operations, were $6.16 per share.
- The total dividend paid in 1980 increased to $1.85 per common share, up 12% from the $1.65 paid in 1979. The quarterly dividend paid rose to 50 cents per share in the fourth quarter.

Unfavorable economic conditions during the year led to generally higher operating expenses and lower gross margins at most of our operating companies. In addition, we had substantially higher interest expense because of increased long-term financing. As a result, the Corporation did not meet its annual earnings growth objective in 1980.

We did, however, achieve record earnings on the individual performance strength of our three fastest growing companies—Target, Mervyn's and B. Dalton Bookseller. Each reported an improvement in operating profit for the year.

We benefited from a very strong fourth quarter. Our business was particularly good throughout the Christmas season, with sales for the combined November-December period above expectations.

Real Estate

Net earnings from discontinued Real Estate operations were 36 cents per share in 1980. The results include proceeds from the sale of various properties and our real estate management and development business in 1980, as well as an additional gain from the 1978 sale of nine wholly owned shopping centers.

The disposition of our Real Estate business is nearly complete. We have sold interests in 19 shopping center projects and related property within the past three years. We are continuing our efforts to sell our remaining Real Estate assets, which consist of interests in three developed shopping centers and various undeveloped land parcels.

Capital Investment and Expansion

We increased our investment in Retail expansion in 1980. Our total investment, including capital expenditures and the present value of new capital and operating leases, was $300 million, compared with $247 million in 1979.

In 1980 we also acquired Ayr-Way Stores Corporation, an Indianapolis-based low-margin chain with 40 stores in Indiana, Kentucky, Illinois and Ohio. These stores are being fully converted to the Target store format and integrated with the Target organization.

Total retail space at year-end was 32.5 million square feet, an increase of 6.8 million square feet over last year. During the year we added 17 Target stores, nine Mervyn's stores, five department stores and 99 specialty merchandising stores, as well as the 40 Ayr-Way units.

Retail capital investment—including capital and operating leases—is expected to total approximately $340 million in 1981. Scheduled openings include 14 Target stores, 10 Mervyn's stores, three department stores and approximately 80 specialty merchandising stores. Retail space is expected to increase by approximately 2.8 million square feet.

Financial Position

Our financial position remained strong throughout 1980 despite the step-up in Retail expansion and the cash acquisition of Ayr-Way.

As planned, we increased our long-term debt with a $100 million offering of 25-year sinking fund debentures. The proceeds were used to support our Retail expansion program.

As a result of this offering, our debt at year-end, including capital leases and the present value of all operating leases, increased to 35% of total capitalization, compared with 29% at the end of 1979. We expect our debt ratio to increase further as we take on additional long-term debt to fund our future growth.

In April 1980, Standard & Poor's raised its rating on our long-term debt from A+ to AA. Moody's Investors Service also upgraded its rating from A to Aa. Both firms assigned their new ratings to our most recent debt offering.

Management and Board Changes

Kenneth A. Macke became President of Dayton Hudson Corporation in January 1981, succeeding Stephen L. Pistner, who resigned.

Mr. Macke began his retailing career at Dayton's in 1961, holding various executive merchandising positions with both Dayton's and Target before being named Chairman and Chief Executive Officer of Target in 1977. He was elected to the Corporation's Board of Directors in 1979.

Floyd Hall, President and Chief Executive Officer of B. Dalton Bookseller, was named to succeed Mr. Macke as Chairman and Chief Executive Officer of Target. Sherman A. Swenson became Chairman and Chief Executive Officer at B. Dalton. Mr. Swenson was formerly President of Dayton's department stores.

In July 1980, Aldo Papone was named Executive Vice President of Dayton Hudson. Mr. Papone, formerly President of the Card Division of American Express Company, is responsible for the operations of B. Dalton, Dayton Hudson Jewelers, Lechmere, John A. Brown and Dayton's. Prior to joining American Express in 1974, Mr. Papone spent 18 years with R. H. Macy and Company, most recently as Senior Vice President-Merchandising.

A number of our operating company chief executive officers were new to their posts in 1980. All but one were serving elsewhere within the Corporation before being named to their present positions—a testament to the management strength throughout the Corporation.

Inflation

Inflation remains a serious challenge to business. We feel that it is appropriate to operate our business as though inflation will remain with us for many years to come. Although we have not come close to solving all of the problems connected with inflation, we have developed some basic strategies to deal with its effects.

Initially, we are focusing our efforts on improving the productivity of our facilities and our people. We have also emphasized the development and expansion of strategies that help our customers cope with inflation. Finally, we have reformulated our financial policies and standards to take into account the effect of inflation in approving capital investment for new facilities.

The Outlook

As we move into the early months of 1981, we see many of the same economic factors that were present during the past year, including inflation, high interest rates and unemployment. Consumers remain cautious as their discretionary income decreases. Retailers continue to face rising costs and declining profit margins.

This environment is expected to continue through most of the first half of the year. Our business planning assumes a moderate recovery beginning sometime during the second half of the year. We will continue to emphasize the improvement of expense performance, productivity levels and sales growth as a means of protecting our profitability. We are confident that these measures will enable us to continue to perform well in 1981.

Looking ahead, we believe we have a firm basis for optimism. We have a carefully constructed set of plans to guide the expansion of our existing businesses. Our plans for growth, together with the diverse business base we have established, should enable us to meet the needs of an increasingly sophisticated and discerning retail customer.

Finally, we have the most important element necessary to carry out our plans: more than 70,000 full- and part-time employees working to achieve the goals the Corporation has set. Because they hold the key to our performance and growth in the 1980s, we dedicate this first annual report of the new decade to them...the people who *are* Dayton Hudson Corporation.

April 8, 1981

Kenneth A. Macke
President

Aldo Papone
Executive
Vice President

William A. Andres
Chairman of the Board
and Chief Executive Officer

Richard L. Schall
Vice Chairman and Chief
Administrative Officer

Retailing: It's A Business of People

Retailing *is* a business of people. Nowhere is this more evident than in the strategic mission to which Dayton Hudson Corporation is committed.

Our mission is to serve people. First and foremost, this means serving the people who are our customers—and doing so better than our competition.

It also means serving the people in our communities by contributing to the development of a strong and healthy environment in which to live and work.

And it means serving the people who are our shareholders by providing them with a superior return on their investment.

There is yet another very important group of people Dayton Hudson is dedicated to serving. That is its employees. It is their effort which makes it possible for the Corporation to fulfill its commitment to its customers, communities and shareholders.

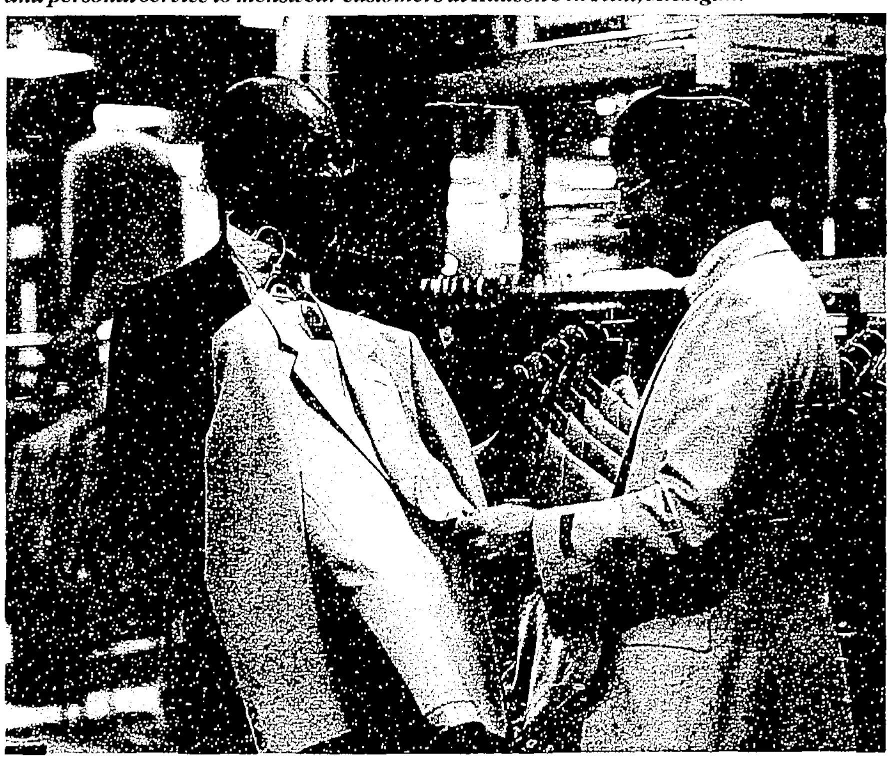
In this special report, we look at the contribution our employees are making at each step in the retailing process.

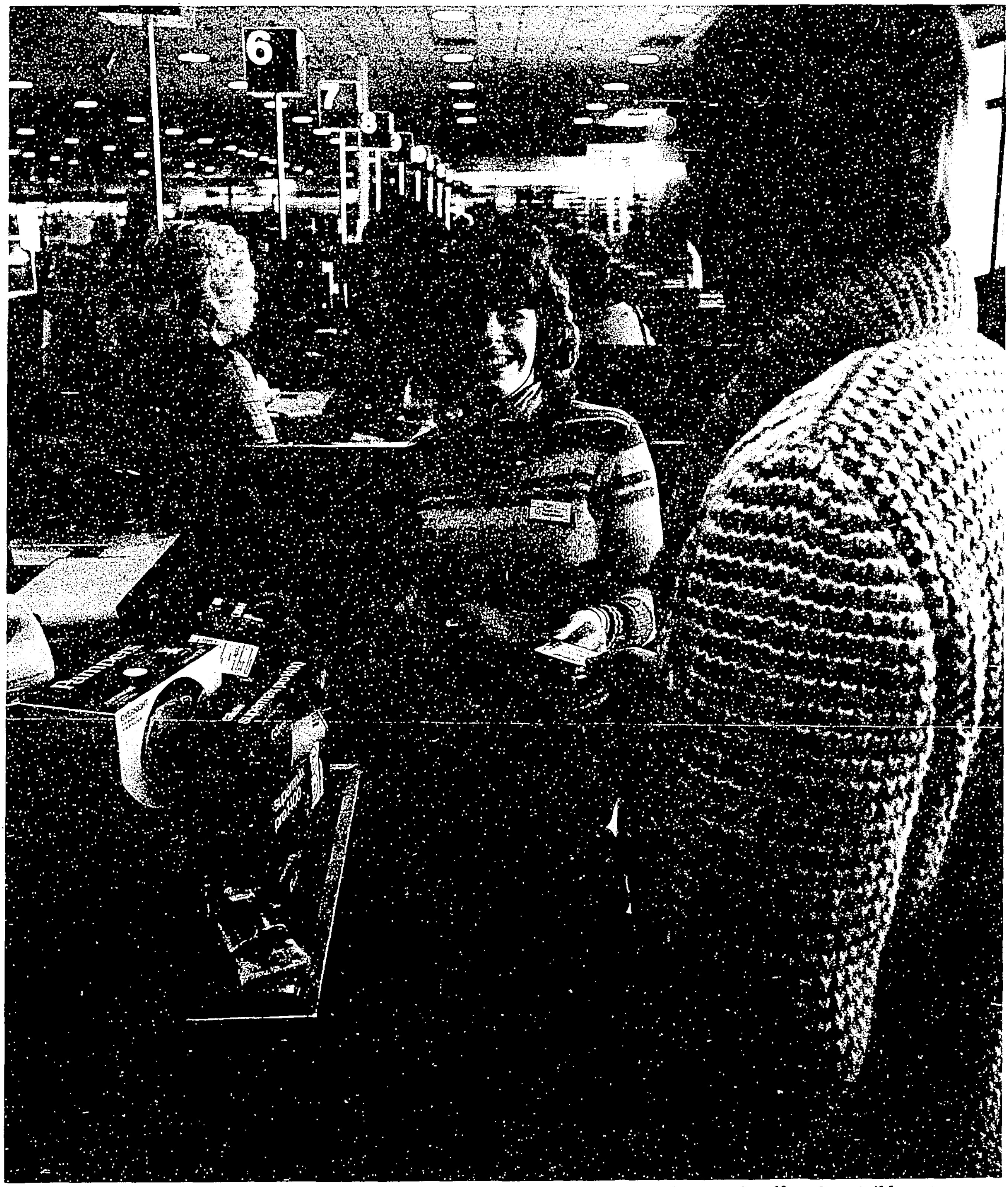
The people featured here and on the following pages represent all phases of retail merchandising, from buying to distribution to selling and sales support.

They represent also the diversity and scope of Dayton Hudson's retail operations: Target low-margin stores; Mervyn's softlines stores; Hudson's, Dayton's, Diamonds and John A. Brown department stores; and B. Dalton Bookseller, Lechmere and Dayton Hudson Jewelers, our specialty merchandisers.

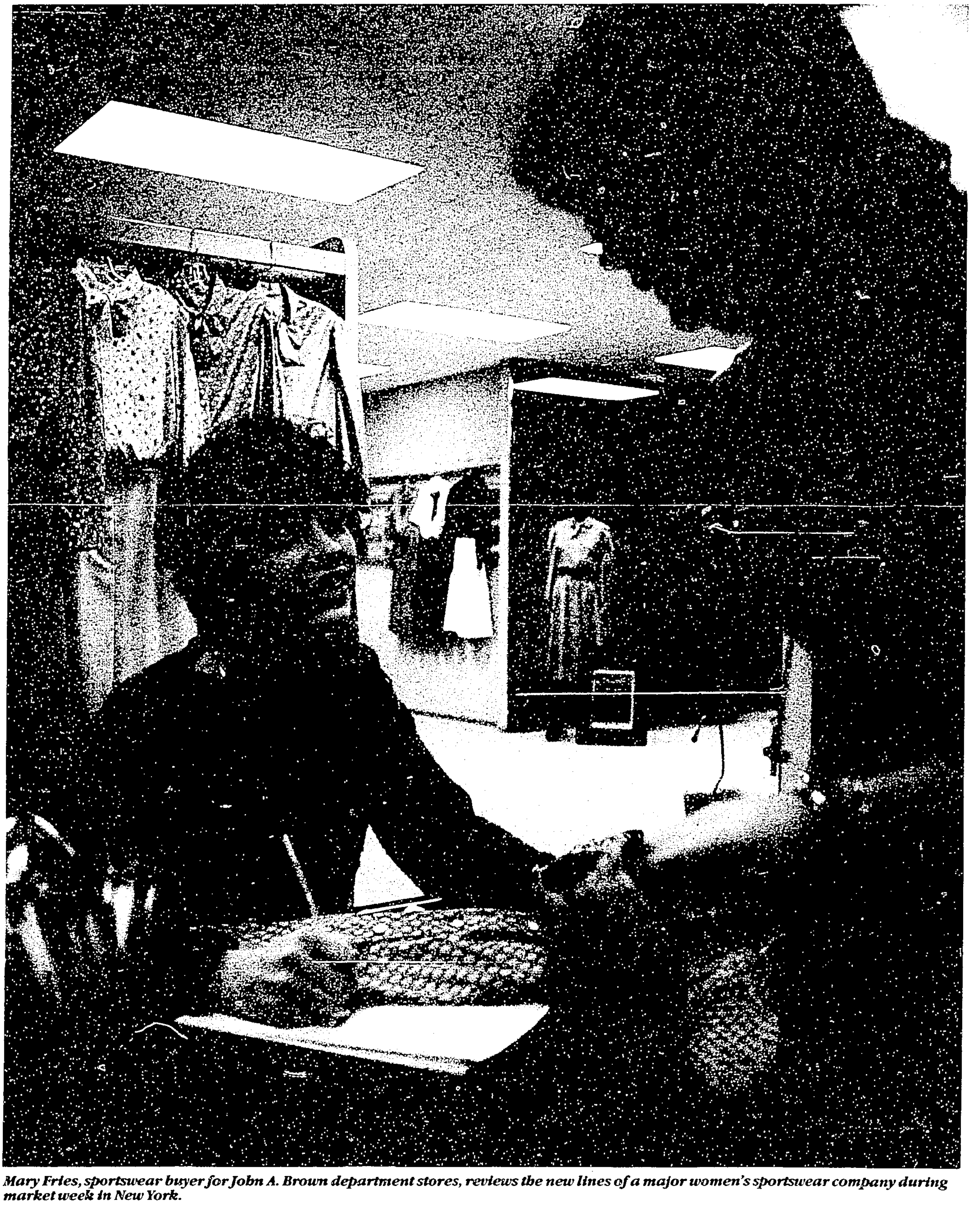
Finally, they represent all of the Dayton Hudson employees who work in our stores, warehouses and offices—the people who *are* Dayton Hudson Corporation.

Sales representative Sam Wilson brings traditional department store fashion expertise and personal service to menswear customers at Hudson's in Flint, Michigan.





Stacey Crane, cashier at Target in St. Paul, Minnesota, plays a key role in Target's successful low-margin self-service retail format.



Mary Fries, sportswear buyer for John A. Brown department stores, reviews the new lines of a major women's sportswear company during market week in New York.

Lucia Rael, right, visits the Manhattan showroom of an apparel designer and manufacturer to buy young men's jeans for Diamonds department stores.

The Customer's Purchasing Agent

At the center of the retailer's merchandising organization is the buyer, that person responsible for purchasing from the manufacturer the merchandise which will be displayed and sold in the stores.

Simply defined, it is the buyer's job to buy the right merchandise in the right quantities at the right price and at the right time. It is a critical responsibility that puts the buyer at the very heart of the retail business.

Whether they are "working the line" in designer showrooms or meeting with manufacturers at merchandise shows, our buyers are guided by a single objective—one that also serves as the principle behind all of the Corporation's retail operations. That is to serve our customers effectively by assuring that their expectations are met when they shop in our stores.

To accomplish this, our buyers approach their task from a unique perspective. They act as the customer's purchasing agent, working on behalf of our customers to anticipate what their expectations for fashion, value, assortments and in-stock condition will be.

It is the buyer who begins the retail process. It is also the buyer who is largely responsible for bringing the process to a successful conclusion. When our buyers have done their jobs well, the retail process operates at its peak of effectiveness, fulfilling customers' expectations for a balanced assortment of fashionable merchandise at the right price.

Glenn Stangeland, left, director of merchandise-diamonds for Dayton Hudson Jewelers, examines fashion diamond jewelry with David Heyman, vice president of Oscar Heyman & Brothers, a leading diamond jewelry manufacturer.

Equipment operator Maryann Holdeman uses an electric walker-rider to move pallets of softgoods in Mervyn's new 415,000-square-foot distribution center in Ontario, California.

Speeding the Flow of Merchandise

Mid-point in the retail process are the people who work in our warehouses and distribution centers. They form an important link between the buyer and the customer, making sure that the flow of merchandise from the manufacturer to the selling floor is timely and efficient.

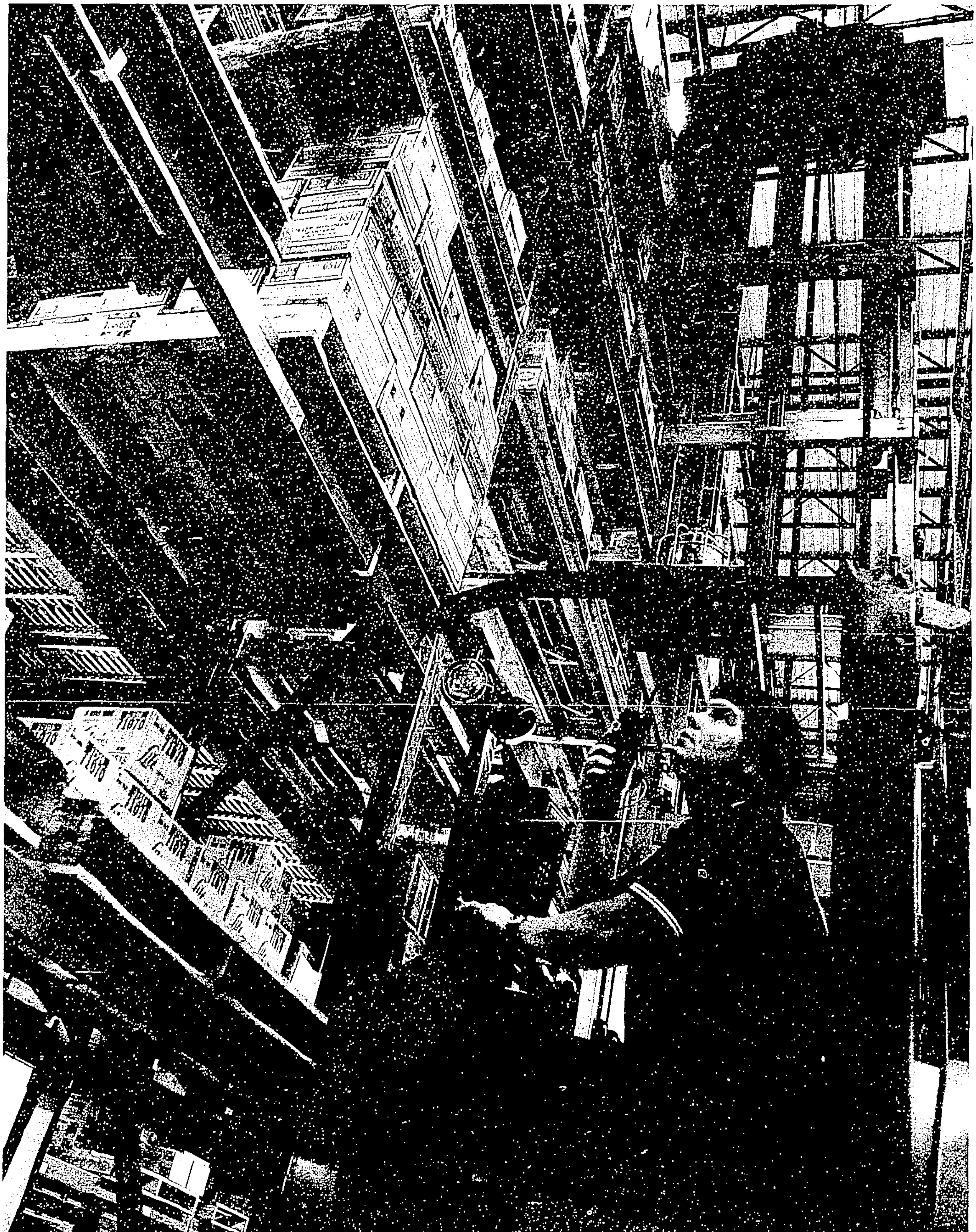
Because merchandise distribution represents a major cost of doing business, retailers continually seek ways to improve the efficiency of their distribution operations. Small improvements can have a significant impact on productivity and ultimately on profitability.

Dayton Hudson is meeting the challenge of improving productivity by using the latest advances in distribution technology and engineering. During 1980, our two largest operating companies, Target and Mervyn's, opened major distribution facilities. Both employ state-of-the-art computer systems and innovative merchandise handling techniques to shorten the time it takes to get goods through the centers and into the stores.

Despite the importance of technology, people still remain the most important element in the distribution process.

People design our distribution centers and select the appropriate technology to support them. People work in the receiving, marking and shipping areas within the centers, using that technology to speed the movement of merchandise to our stores.

And in the end, it is people who benefit—the Dayton Hudson customers whose expectations are met when they shop in our stores.



At Target's southern distribution center in Little Rock, Arkansas, warehouse worker Randy Springer operates a swing-reach truck, a highly versatile distribution support vehicle in use throughout the new facility.

Store manager Judy Applen, left, provides courteous and knowledgeable service to bookbuyers at B. Dalton in Minneapolis' Ridgedale shopping center.

Serving The Customer

All of our efforts are directed ultimately to the selling floor. It is there that the merchandise purchased by the buyer and moved through the distribution center is finally presented to the most important person in the retail process—the customer.

It remains for someone to bring the process to a successful close by matching the merchandise to specific customer wants and needs. That task falls to the professional sales personnel who work directly with the customers of Dayton Hudson's retail companies.

Their responsibilities actually extend beyond fulfilling immediate customer needs. Because they act as personal representatives of the store, their actions and attitudes can determine whether the customer will be satisfied and return when future needs arise.

The effective performance of their jobs requires above all an exemplary attitude. By striving to provide pleasant and courteous service, they help our customers understand that they are truly welcome in our stores. They must also instill confidence through professionalism and a thorough knowledge of the merchandise they are selling.

Recognizing their role, we place a high degree of importance on the training of our sales personnel. Our training programs emphasize professional selling skills and merchandise knowledge to improve sales productivity and service to the customer.

Not all of our companies stress personalized selling, however. Target's self-service format, for example, serves the customer in a different way. Through clear signs, well-organized displays and efficient checkout procedures, Target makes it easy for customers to find, select and purchase its value-priced merchandise.

When the customer's shopping needs are fulfilled, the retail process comes to an end. But when we have served the customer well through either personal selling or an efficient self-service format, the sale can also represent a beginning—the start of a continuing relationship between the customer and the store.

Victor Boisse, left, brings thorough product knowledge to his job as home appliance sales representative at Lechmere's Manchester, New Hampshire, store.

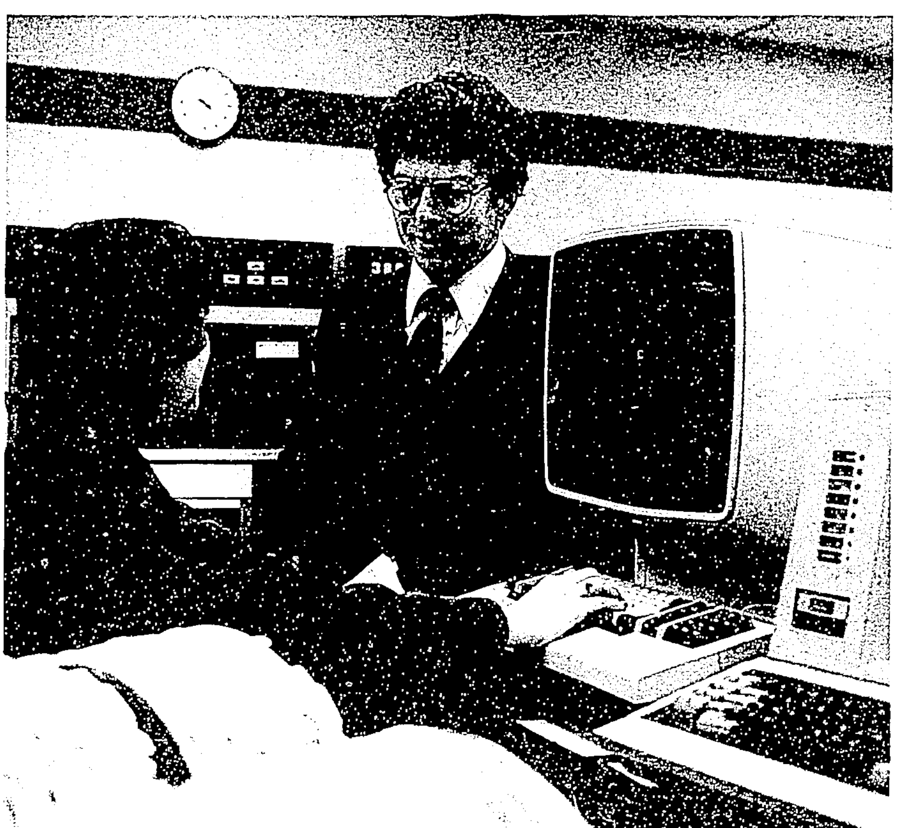
Playing a Vital Role Behind the Scenes

Throughout all the phases of the retail process are thousands of Dayton Hudson employees who play an important supporting role in our day-to-day operations.

They are the planners who define our retail strategies and design and construct stores to house them... the marketing personnel who create exciting advertising, promotions and merchandise displays... the store management teams who see that our customers shop in pleasant environments.

They operate computer systems that provide vital management information. They establish standards, and control and monitor performance to ensure that we continue to provide a superior return to our shareholders. And they hire and train new people to support our rapid growth.

They work in our nine operating companies and at the corporate level. Although they provide supporting services, their contributions are no less important than those of their counterparts who are involved directly in buying, distribution and selling. They too serve the retail consumer—and in doing so, play a vital role in achieving the strategic mission of Dayton Hudson Corporation.



Denny Konn, programmer analyst for B. Dalton Bookseller, is a member of a store systems project team which is responsible for developing computer support for B. Dalton's more than 500 stores.

As an artist in Mervyn's sales promotion department, Ed Diaz works on layouts and finished illustrations for the Mervyn's advertising tabloid which appears weekly in more than 75 newspapers.

Review of Operations

In this year's annual report we are changing the way we classify our business segments so that Target's operating results can be presented separately for the first time. Under this new business classification, our four operating segments are Target, Mervyn's, department stores (Hudson's, Dayton's, Diamonds and John A. Brown), and specialty merchandisers (B. Dalton Bookseller, Lechmere and Dayton Hudson Jewelers).

Target has become the Corporation's largest operating company and, together with Mervyn's, one of our primary vehicles for growth. The separate disclosure of Target's and Mervyn's results will enable shareholders and potential investors to follow more closely the individual performance and growth of these two companies.

Target

Target's annual revenues increased 37% over last year. Included in the 1980 total are revenues beginning September 7 from 40 Ayr-Way stores which were acquired during the year. Excluding the contribution of these stores, Target's revenues were up 24% for the year.

Target's operating profit contribution increased 25% in 1980.

Although earnings growth was strong, the gross margin rate was down slightly from the previous year because of the highly promotional retail environment that prevailed throughout 1980. Earnings were also somewhat affected by higher pre-opening expenses, the result of an increased store opening program.

TARGET

	1980	1979
Revenues	$1,531,698,000	$1,120,548,000
Operating Profit*	$ 91,053,000	$ 72,873,000

Target's primary marketing strategy is to offer value to the consumer through high-quality goods at low prices. The merchandising focus is on nationally branded products with a reputation for quality. These are offered together with Target's private-label merchandise, which must first pass laboratory tests for quality and safety before it is offered to the consumer.

The standard Target prototype store is a 100,000-square-foot unit featuring a merchandise mix of two-thirds convenience-oriented hardlines and one-third midrange fashion softlines. The emphasis is on basic merchandise —the everyday goods that consumers use and need most. At the same time, however, Target is quick to offer the latest trends in both hardlines and softlines.

Although generally considered a discount store, Target has actually established a distinct position among retailers. Research has shown that consumers view Target as a shopping alternative to a wide variety of other retail formats, including traditional discounters, mass merchandisers and department stores.

While the Target format attracts a broad consumer base representing all ages and demographic characteristics, it has traditionally been a store for the young, mobile and value-conscious family. With the focus on value and quality growing among virtually all consumer groups, the Target customer base is expected to expand even further.

The acquisition of Ayr-Way in 1980 represents a major step forward in Target's expansion. With 40 stores primarily in Indiana, and also in Kentucky, Illinois and Ohio, Ayr-Way provides Target with an opportunity to establish within a short time a strong competitive presence in two large markets—Indianapolis and Louisville —and in several other multiple-store markets as well.

The integration of Ayr-Way into the Target organization is proceeding smoothly in three distinct steps, beginning first with people and then systems. The final phase in the transition involves remodeling and converting the individual Ayr-Way units into Target stores. This phase is being done market by market and is expected to be completed by the end of this year.

In 1980 Target opened its second distribution center, a 580,000-square-foot facility in Little Rock, Arkansas. The new center, which utilizes the latest technology and merchandise handling procedures, emphasizes the flow-through movement of merchandise rather than storage.

Target's low-margin self-service format offers basic merchandise plus fashion goods to today's value-conscious consumer.

*Operating profit includes all revenues and expenses from Retail operations except Corporate and interest expense, unusual expenses, and income taxes.

MERVYN'S

	1980	1979
Revenues	$826,922,000	$655,963,000
Operating Profit	$ 76,282,000	$ 68,566,000

Mervyn's continued to benefit from its strong value-orientation as economic conditions in 1980 forced consumers to stretch their disposable income. Operating profit contribution was 11% ahead of last year, while revenues increased 26% over 1979.

A key factor in Mervyn's 1980 performance was a decline in the gross margin rate during the final quarter of the year, due to a step-up in promotional activity in its West Coast markets.

Mervyn's promotes value-priced assortments of basic family softgoods through its weekly newspaper tabloid.

Mervyn's approach to merchandising is to offer an in-depth selection of basic family softgoods at value prices. The merchandise offering consists of broad assortments of apparel and accessories for the entire family, as well as linens, bedding, draperies and fabrics for the home. Within these categories, men's and women's sportswear represent the largest volume areas.

Approximately 40% of Mervyn's merchandise is branded, including such nationally known names as Levi's®, Adidas®, Revlon® and Cannon®. The balance consists of Mervyn's private-label merchandise, all of which is thoroughly tested to ensure a quality standard comparable to the branded items.

While basics dominate the merchandise offering, Mervyn's is also quick to adapt to the latest fashion trends. Mervyn's is not committed to being a fashion trendsetter, instead positioning itself as a retailer that is consistently on the leading edge of fashion. Once a trend has been established, Mervyn's strategy is first to test it in selected stores and then offer it in depth at a popular price throughout the entire chain.

Mervyn's has a firmly established and clearly perceived value image with its customers. It is not a discount store, but a highly promotional retailer that aggressively prices and promotes its merchandise on a day-to-day basis—a strategy which effectively distinguishes Mervyn's from its competition.

Mervyn's primary advertising vehicle—and one of the keys to the company's overall success—is its newspaper tabloid. Each week more than 4.6 million copies appear in over 75 newspapers, reaching over 10 million readers. The tabloid features special promotions in every department.

Mervyn's can also point to its highly effective centralized operations as another reason for its success. All merchandising operations, for example, are conducted from the company's headquarters in Hayward, California, near San Francisco. Computerized sales reports from each store arrive there on a weekly basis so that all orders, pricing decisions, advertising and markdowns can be controlled from one central location.

The merchandise distribution process at Mervyn's is also a highly centralized operation. Nearly all of the merchandise is purchased in bulk quantities and shipped by the manufacturer to one of two distribution facilities. From there it is redistributed to individual stores in the appropriate quantities and assortments.

hudson's
DAYTON'S
diamonds
John a. brown

Revenues	1980	1979
Hudson's	$ 641,532,000	$ 652,038,000
Dayton's	382,113,000	357,027,000
Diamonds	123,062,000	115,759,000
John A. Brown	57,173,000	48,945,000
Total	$1,203,880,000	$1,173,769,000
Operating Profit	$ 94,051,000	$ 102,993,000

Dayton Hudson's department stores fulfill their customers' expectations for fashion and quality in an exciting shopping environment.

Department store revenues were up 3% in 1980. All companies except Hudson's reported revenue growth for the year.

Hudson's revenue decline reflects a year-long continuation of unfavorable economic conditions in many of its markets. Industrial layoffs and generally high unemployment levels were present throughout much of the year, particularly in the Detroit area.

While all department store companies reported an operating profit increase in the important fourth quarter, the group's operating profit contribution declined for the full year. Earnings increases at Diamonds and Dayton's

were offset by lower earnings at Hudson's and John A. Brown. Diamonds reported a 30% increase in operating profit for the year, while Dayton's contribution was up 3%.

Hudson's earnings were impacted by the slow sales it experienced throughout most of the year. As a result, operating profit contribution was down 19% from 1979. John A. Brown reported a 16% operating profit decline for the year.

While other segments of the Corporation's business are experiencing faster growth, department stores continue to play an important part in Dayton Hudson's Retail operations—and in the world of retailing itself.

Dayton Hudson Corporation was formed in 1969 with the merger of two large and successful regional department store companies—The Dayton Company of Minneapolis and The J. L. Hudson Company of Detroit. Since then, the department store group—Hudson's, Dayton's, Diamonds and John A. Brown—has provided a solid foundation upon which the Corporation has grown and prospered.

The department store occupies a unique position in the retail industry. More than any other retail format, department stores have the ability to serve a variety of customer needs under one roof. They offer more selection in fashion and assortments... more convenience with special services like wardrobe planning and home delivery ... more excitement through a dramatic and entertaining environment that makes shopping fun. And they can be more flexible, changing and adapting quickly to the latest fashion trends.

This ability to serve the consumer's needs, together with favorable demographic changes, points to a positive outlook for department stores.

Dayton Hudson's department store companies have each achieved longstanding reputations for fashion and quality leadership within their respective regional markets. Each is in a strong position to benefit from the favorable environment which the department store business should encounter as the 1980s unfold.

B. Dalton BOOKSELLER

LECHMERE

DAYTON HUDSON JEWELERS

Revenues	1980	1979
B. Dalton Bookseller	$255,647,000	$209,852,000
Lechmere	162,687,000	176,870,000
Dayton Hudson Jewelers	52,702,000	47,847,000
Total	$471,036,000	$434,569,000
Operating Profit	$ 20,130,000	$ 23,618,000

Revenues from specialty merchandisers increased 8% over last year, while operating profit declined.

The largest company within this group, B. Dalton Bookseller, had a 22% increase in revenues. Good expense control and favorable gross margin performance enabled the company to achieve a 20% increase in operating profit.

Lechmere experienced an 8% decline in revenues and operated at a loss in 1980. Lechmere has been undergoing a strategic re-definition of its business. As part of this process, it has discontinued some departments and activities viewed as peripheral to its operations. The termination of these departments was responsible for the company's loss. The related absence of their revenues was the principal factor in Lechmere's decline in total revenues.

With the termination of these strategically incompatible operations, Lechmere is in a stronger position to focus its business in areas which should prove to be profitable opportunities in the future.

Dayton Hudson Jewelers had a 10% increase in revenues for the year, but operating profit declined 55% principally as a result of inflation in the cost of merchandise which was not fully reflected in retail prices. Unit sales were down from a year earlier, reflecting industry-wide jewelery sales trends.

The three companies that conduct Dayton Hudson's specialty merchandising operations serve the retail consumer who demands specialized merchandise assortments.

B. Dalton Bookseller is the country's leading national bookstore chain with over 500 stores. Its "nothing but books" merchandising approach is aimed at offering the consumer more books than any other bookstore in the market. The typical B. Dalton unit carries over 25,000 paperback and hardcover titles consisting of both bestsellers and special-interest books, as well as backlist titles—those books which stay in print beyond their initial printing season.

Specialty merchandisers focus on specific segments of the consumer market by offering broad assortments in selected merchandise categories.

Lechmere is a New England chain specializing in quality brand-name hardlines for home and leisure activities. Its high-volume, low-margin stores offer dominant merchandise assortments in five basic areas: consumer electronics, home appliances, housewares, recreational equipment and home maintenance equipment.

The six regional fine-jewelry companies which form Dayton Hudson Jewelers offer the finest quality gems, fashion jewelry and gifts, as well as china, silver and crystal for the home. As individual companies, they are strong regional businesses with distinct identities in their respective markets.

Expansion

Dayton Hudson Corporation stepped up the pace of its expansion program considerably in 1980, adding 170 stores totaling 6.8 million square feet of new Retail space.

Target

Target expanded its operations in 1980 through both internal growth and acquisition. Total stores increased from 80 to 137 at year-end.

Target opened 17 stores during the year, most of them in new markets. Among these were three stores in Memphis, Tennessee, two in Wichita, Kansas, and two in Austin, Texas.

One store was opened in each of the existing markets of Dallas, Houston and Denver. Target also added 40 stores and 3.3 million square feet of retail space through the acquisition of Ayr-Way.

Target plans to open 14 stores in 1981. New markets include Nashville, Tennessee, with three stores, and Knoxville, Tennessee, with two. A planned opening in Lafayette, Louisiana, will be Target's first in that state.

Mervyn's

Mervyn's opened nine stores in 1980, increasing its total to 69 at year-end.

Among the openings were four in the Salt Lake City area, Mervyn's first stores in Utah, and a sixth store in the Phoenix area.

Expansion plans for 1981 anticipate the addition of 10 new stores. Of the total, five will open in California. Other stores scheduled include two in El Paso, Texas, and one in Vancouver, Washington.

Department Stores

Five department stores opened in 1980, bringing the group's total to 50 stores in 10 states.

Hudson's added two stores during the year, one in Kalamazoo, Michigan, and another in South Bend—its first in Indiana. Both units measure 124,000 square feet.

Dayton's expanded into Wisconsin during 1980, opening a store in La Crosse. Diamonds opened a store in Mesa, Arizona, its seventh in the

Sales personnel check stocks and presentation at Mervyn's in San Bernardino, California —one of nine Mervyn's stores opened in 1980.

Phoenix market. John A. Brown added a fourth store in Oklahoma City.

The department store group has already opened one store in 1981 and plans two more. In February, Diamonds began operations in its third store in Las Vegas. Diamonds also plans to open a second store in Tucson in August. Hudson's will add a store in Ft. Wayne, Indiana, in July.

Specialty Merchandisers

B. Dalton Bookseller added 100 stores and closed three in 1980. Total stores at year-end: 517 in 46 states, the District of Columbia and Puerto Rico.

B. Dalton plans to add approximately 75 stores during 1981.

Dayton Hudson Jewelers opened three stores and closed one during 1980, bringing its total to 52 at year-end.

Three new jewelry stores are planned for 1981, including a J. Jessop & Sons unit in Orange County, California, and another J. E. Caldwell unit in the Philadelphia area.

Continuing Our Growth

Each year we update a five-year Retail expansion plan mapping a carefully programmed continuation of our growth.

For the five-year period, 1981-85, we plan to invest $1.95 billion in Retail expansion. Of this amount, capital expenditures will total $1.74 billion and new lease obligations will amount to $210 million. In addition, new store working capital requirements during the five-year period will amount to approximately $200 million.

Most of the planned investment will be directed toward the opening of new stores—more than 600 of them. We expect to grow to more than 1,400 stores totaling 48 million square feet of Retail space by the end of 1985—an annual compound growth rate of 8%.

Approximately 90% of the total investment will go to our three major growth companies—Target, Mervyn's and B. Dalton Bookseller. These companies today contribute more than half of our total revenues and earnings. Each is uniquely positioned to continue to serve the retail consumer.

1980—Growth through expansion and acquisition

	End of 1980		End of 1979	
	Stores	Space*	Stores	Space*
Target**	137	13,229	80	8,197
Mervyn's	69	5,393	60	4,638
Department Stores				
Hudson's	18	5,832	16	5,563
Dayton's	16	3,149	15	3,047
Diamonds	10	1,242	9	1,112
John A. Brown	6	632	5	488
Total	50	10,855	45	10,210
Specialty Merchandisers				
B. Dalton Bookseller	517	1,875	420	1,550
Lechmere	6	992	6	992
Dayton Hudson Jewelers	52	194	50	194
Total	575	3,061	476	2,736
Total Retail Stores	831	32,538	661	25,781

*Thousands of square feet (excluding office, warehouse and vacant space).
**Includes 40 Ayr-Way stores totaling 3,336 square feet of Retail space.

As we enter the 1980s and government begins to tighten its belt, responsibility for our nation's social well-being will have to be shared increasingly by the private sector.

At Dayton Hudson Corporation, we have traditionally believed that business has a stake in—and therefore a responsibility for—the social climate in which it functions. We believe that business exists to serve society. Profit is our reward for serving society well. It is the means and measure of our service. Over time, we know that if we serve society well, our business will prosper also.

Corporate Philanthropy: Sharing With Society

For Dayton Hudson, this concept of service takes many forms, one of which is our program of corporate philanthropy. It has meant 35 consecutive years of contributing annually an amount equal to 5% of our taxable income to the communities in which we operate. Our philanthropic program has survived the test of time. Today it represents an essential and successful operating strategy of the Corporation.

Our program has been designed for maximum impact. It is notable in both size and focus.

The size of our giving budget—at 5%, the maximum level allowable by law as a tax deduction—is still rare among corporations. The national average for business philanthropy has been about 1% for many years. In 1980 Dayton Hudson's total giving budget was $10.8 million.

We consider it a choice: to pay taxes on 5% more income and let government spend the money, or to direct another 50 cents of each of these dollars to the best programs we can find which serve our communities, our customers and our employees. We have chosen to spend it ourselves.

But it is more than the size of a giving budget that makes an effective program. It is not how much we spend, but *how* we spend it.

At Dayton Hudson, we believe that impact comes from focus. We have therefore designated a geographic focus, directing our dollars to the communities where our businesses are concentrated, as well as a clear program focus. Instead of responding to requests from many fields, we have defined our interests, and we initiate programs and projects in those specific areas.

Of our total grant funds, 80% is divided equally between two fields: social action—with an emphasis on youth and the disadvantaged—and the arts.

Our social action funds have been targeted to the central city: youth employment programs, programs for minorities and women, neighborhood rehabilitation and downtown development.

Our funds for the arts have focused on the major cultural organizations of the communities in which our operating companies are headquartered. These grants, along with funds for some emerging and innovative artistic ventures, have contributed significantly to the quality of life for our customers, our employees and the public in general.

We believe that one of the keys to an effective philanthropic effort is to involve our operating companies and their employees in the giving process. From Woburn, Massachusetts, to Hayward, California, there are Dayton Hudson employees working as volunteers to bring our program to the local level. They help make decisions and give their time to see that our dollars are spent effectively.

As our operating companies take on more responsibility, we find that the concept of focus is often taken one step further.

At B. Dalton Bookseller, for example, books mean more than business. As the company's philanthropic activities have grown, they have naturally focused on

B. Dalton Bookseller regional manager Larry Ryan, left, spends several hours a week as a literacy tutor for Project Read, a Phoenix Public Library program that is also aided by financial grants from B. Dalton.

programs related to reading. In the arts, they have concentrated on libraries and literature—on public readings, workshops and fellowships for writers. In the social action area, they have confronted the problem of adult literacy. Through contributions to literacy councils around the country, as well as many hours of employees' time as literacy tutors, they have had a significant impact.

The more our employees become involved personally in this process, the more solid our commitment as a corporation becomes. Through maximum dollars, clearly articulated and appropriate focus, and the involvement of our employees, we are taking our corporate responsibility seriously.

Financial Review

The following discussion of Dayton Hudson's financial objectives, policies and planned capital expenditures relates to the Corporation's continuing Retail operations. All financial comparisons below are based on earnings from continuing operations, and on consolidated balance sheets. Earnings from the discontinued Real Estate business have been excluded from the comparisons. This approach is appropriate because the proceeds from the sale of our Real Estate assets are being directed into our Retail business.

Over the last three years, Real Estate sales have generated net income of $241 million. The addition of this income to the equity base of our Retail business has caused return on investment measures to decline. As these equity infusions become mature Retail investments, we expect the productivity of our permanent capital to improve.

Financial Objectives

Dayton Hudson's primary financial goal is to provide its shareholders with a superior return on their investment over time, while maintaining a consistently strong and conservative financial position. We believe that we can achieve this goal by growing at a rate which is among the highest in our industry, and that our shareholders will benefit from increasing cash dividends and a higher valuation of their investment in our Common Stock.

To manage our growth, we have established specific financial objectives and clearly defined financial policies, which serve as a framework for decision making. Our *financial objectives* can be summarized as follows:

■ Return on Equity (ROE): *To earn a consistent after-tax return on beginning shareholders' equity of at least 16%.* We have not met this objective in the last two years: ROE was 14.4% in 1980 and 15.6% in 1979. Poor economic conditions have slowed earnings growth, and the substantial additions to equity from Real Estate sales have given us a larger base on which we must earn. ROE is expected to exceed our objective as economic conditions improve and as the cash proceeds from Real Estate sales are reinvested in our Retail business.

■ Earnings Per Share (EPS) Growth: *To sustain an annual growth in earnings per share of at least 15%.* During 1980, we raised our EPS objective from 12% to 15% because we believe that our Retail business offers the opportunity to achieve this increased return. For 1980, however, EPS from continuing operations increased by only 9%, compared with 15% in 1979 (excluding the impact of unusual expenses in 1978). Detail of our EPS results is provided in the following Analysis of Operations (page 20). EPS has increased at a compound annual growth rate of 17% over the past five years and 21% over the past 10.

■ Debt Rating: *To maintain a strong rating of our senior debt.* During 1980, our long-term debt rating was raised to AA by Standard and Poor's and to Aa by Moody's in recognition of our performance and strong financial condition. Our commercial paper is rated A-1 by Standard & Poor's and P-1 by Moody's. We have structured our financial policies described below to support the quality of our credit rating.

RETURN ON INVESTMENT: The key factor which underlies each of our financial objectives is return on investment (ROI). We believe that ROI is the most important single measure of operating performance, and it is the primary financial tool we use to manage our business.

ROI is defined as the product of investment turnover and return on sales:

$$\text{ROI} = \frac{\text{Sales}}{\text{Investment}} \times \frac{\text{Earnings}}{\text{Sales}} = \frac{\text{Earnings}}{\text{Investment}}$$

For this equation, we believe that it is appropriate to use an *earnings* figure which has been adjusted to reflect the profitability of our assets before any financing costs, so we add back interest expense to earnings. *Investment* is the sum of working capital and non-current assets, including the present value of all leases (capital and operating).

After-tax ROI from continuing operations was 11.5% in 1980, compared with 11.8% in 1979. We achieved higher sales per dollar of investment in 1980, but our profit margins were not as high.

	ROI	=	Investment Turnover	×	Return on Sales
1980	11.5%	=	2.93	×	3.92%
1979	11.8%	=	2.80	×	4.22%

The following table shows investment and return on investment for 1980 and 1979:

	(Millions of Dollars) **1980**	1979
Net Earnings from Continuing Operations	**$ 138.2**	$ 126.5
Interest Expense — After Tax (a)	**5.3**	4.8
Interest Equivalent in Leases — After Tax (b)	**14.7**	11.5
Earnings from Continuing Operations before Financing Costs	**$ 158.2**	$ 142.8
Beginning of Year Investment — Consolidated		
Working Capital (c)	**$ 451.5**	$ 439.6
Net Property and Equipment	**629.8**	472.2
Non-Current Assets of Discontinued Ops.	**36.1**	48.2
Other Assets	**4.1**	5.7
Capital Leases	**67.2**	70.9
Present Value of Operating Leases	**187.9**	172.3
Total Investment	**$1,376.6**	$1,208.9
Return on Investment	**11.5%**	11.8%

(a) Interest expense from debt existing at the beginning of the year.
(b) Determined by assuming an after-tax interest rate of 5.5% in 1980 and 4.7% in 1979 on beginning of year capital leases and the present value of operating leases.
(c) Current assets less current liabilities (excluding interest-bearing debt).

Our future success in achieving our objectives will depend substantially upon our continued effective application of the ROI tool in the following basic processes of managing the Corporation:

■ Performance Appraisal: The management of each Dayton Hudson operating company is evaluated and compensated based on a measure of that company's return on investment, as well as upon its growth in earnings.

■ Capital Allocation: Capital for expansion is allocated by Corporate management based on an individual operating company's past and projected performance measured against its ROI standard. Additional criteria for allocating capital include the quality of the company's strategic plan, strength of the management team and systems, and development of market position.

■ Capital Project Evaluation: All new capital projects must meet corporate-wide ROI standards, which are reevaluated

each year. For example, plans for each new store must project an ROI of at least 12% by the store's fifth full year of operation and an internal rate of return (discounted cash flow) over its life of at least 13%. Audits of results in the years following completion determine whether project performance has met our standards.

■ New Strategy Identification: Potential high-return strategies for future investments are analyzed to determine whether they would meet our ROI expectations, and, if so, whether they represent opportunities which are as attractive as expansion of our existing businesses.

Financial Policies and Position

The Corporation's financial policies are designed to support our financial objectives and to preserve our liquidity, which we define as our ability to obtain capital for growth from both internal and external sources. The key determinant of liquidity for Dayton Hudson is, and will be, a strong conservative capital structure that will permit financing flexibility as we continue our aggressive growth program.

■ Capital Sources: The greater part of our growth has been financed with internally generated funds. We plan to finance over half of our expansion for the 1981-1985 period internally with cash flow from earnings and depreciation. Because we own the majority of our department and Target stores, depreciation provides a significant source of cash flow.

Management believes in the prudent use of debt financing to support the attainment of our financial objectives. We expect to employ substantial additional long-term debt to support the future growth of our Retail businesses. In addition, we will continue to utilize bank credit lines and commercial paper issued by the Corporation to meet the seasonal working capital requirements of our business. Our financial policies provide a high degree of flexibility as to types of debt financing, in order to minimize our overall costs of funds and allow access to a variety of funding sources.

■ Capital Structure: Consistent with our objective of maintaining a strong financial position, we have determined that a consolidated debt ratio, including capital leases and the present value of operating leases, of 40-50% of total capitalization would be appropriate for the Corporation. We expect that the debt ratio will increase gradually toward this range during the next several years, and that our level of fixed charge coverage will remain conservative.

The Corporation's consolidated debt ratio increased to 35% in 1980, compared with 29% in 1979 and 32% in 1978.

	(Millions of Dollars)		
Capitalization	**1980**	1979	1978
Notes Payable	**$ 28.5**	$ —	$ —
Long-Term Debt (incl. Curr. Portion)	**221.7**	123.8	101.1
Capital Leases (incl. Curr. Portion)	**109.0**	79.1	81.7
Present Value of Operating Leases	**218.5**	187.9	172.3
Long-Term Debt, Discontinued Ops.	**.7**	9.1	28.8
Total Debt and Equivalent	**578.4**	399.9	383.9
Deferred Items	**18.7**	14.1	16.6
Equity	**1,066.4**	962.6	808.4
Total Capitalization	**$1,663.5**	$1,376.6	$1,208.9
Debt Ratio (Total Debt and Equivalent as a percentage of Total Capitalization)	**35%**	29%	32%

Reductions in the debt ratio in 1978 and 1979 were the result of improved internal cash flow and the proceeds from the sale of Real Estate assets. The increase in the debt ratio in 1980 was primarily attributable to a public issue of $100 million of sinking fund debentures which was completed in May.

■ Common Stock and Dividends (Unaudited): Dayton Hudson Corporation Common Stock is listed on the New York Stock Exchange and the Pacific Stock Exchange with the symbol *DH*, and abbreviated in newspaper listings as *DaytHd*. At year-end, the number of Dayton Hudson shareholders of record was 11,815, compared with 12,332 at year-end 1979. On April 7, 1981, there were 11,687 shareholders of record.

In support of our goal of providing our shareholders with a superior return on their investment, it is our policy to make regular annual increases in dividends per share of Common Stock, consistent with earnings growth over time. A reduction in dividends per share would be considered only if economic or financial conditions were so severe as to threaten the Corporation's ability to sustain its profitability and growth over the long run.

Dividends declared in 1980 on our Common Stock totaled $1.90 per share, a 12% increase over the $1.70 per share declared in 1979. The quarterly dividend was increased to $.50 for the dividend declared on October 8, 1980. The current annualized rate is $2.00 per share.

	Common Stock Price Range				Quarterly Dividend Declared Per Share	
	1980		1979			
Fiscal Quarter	**High**	**Low**	High	Low	**1980**	1979
First	**$49¼**	**$36½**	$41¼	$36½	**$ .45**	$ .40
Second	**50**	**37⅞**	41¼	37¾	**.45**	.40
Third	**54¼**	**41¼**	44⅞	39½	**.50**	.45
Fourth	**49**	**40**	46¼	38¾	**.50**	.45
Year	**$54¼**	**$36½**	$46¼	$36½	**$1.90**	$1.70

Capital Expenditures

Capital expenditures during 1980 reflected our continuing aggressive growth program, made possible by our strong financial position and competitive performance. Capital investment in Retail operations, including the present value of all new capital and operating leases but excluding our acquisition of Ayr-Way, totaled $300 million in 1980, compared with $247 million in 1979.

	(Millions of Dollars)		
	1980	1979	1978
Capital Expenditures	**$265**	$211	$136
Present Value of New Leases	**35**	36	56
Total	**$300**	$247	$192

During the 1981-1985 period, we plan to invest approximately $1.95 billion in our existing Retail businesses. Because of the long lead times required for planning and construction of retail stores, the Corporation makes commitments for many of its capital projects well in advance of the time the capital expenditures are actually made. Our financial policies place limits on the amounts of such forward commitments which can be accumulated for future years. It is our intention that these commitments for future expenditures not exceed levels which could be funded by internally generated funds should external financing be unavailable.

Analysis of Operations

(Thousands of Dollars, Except Per Share Data)

1980 presented a challenge to retailers in particular to achieve real earnings growth in a highly promotional, competitive environment coupled with record levels of inflationary cost and expense increases. The table below summarizes the changes in earnings from 1977 through 1980.

	1980	1979	1978	1977
Earnings Per Share — Continuing	**$5.80**	$5.33	$ 4.12	$3.89
Earnings Per Share — Discontinued	**.36**	2.77	7.09	.27
Consolidated Earnings Per Share	**$6.16**	$8.10	$11.21	$4.16

Variance Analysis: Continuing Retail Operations	**1980 vs. 1979**	1979 vs. 1978	1978 vs. 1977
Prior Year's Earnings Per Share	**$5.33**	$4.12	$3.89
Change in Earnings Per Share Due To:			
Sales Volume and Finance Charge Revenue	**1.07**	.78	.87
Gross Margin Rate — including LIFO provision of $(.17), $(.31) and $(.15)	**(.52)**	(.33)	.03
Operating Expense Rate	**(.24)**	(.15)	(.12)
Start-Up Expense	**(.09)**	.05	(.09)
Corporate Expense	**.09**	(.07)	(.12)
Interest Expense — net of $.18 capitalized in 1980	**(.09)**	.01	.03
Interest Income	**(.05)**	.19	—
Income Tax Rate	**.28**	.23	.11
Unusual Expenses	**—**	.52	(.52)
Other Factors	**.02**	(.02)	.04
Earnings Per Share — Continuing	**$5.80**	$5.33	$4.12

Revenues increased 19% in 1980, equal to the 1978 growth and ahead of 1979's revenue increase. Comparable store revenues (from stores open at least 12 months) increased 5% in 1980, below the comparable percentage increases in 1979 and 1978.

Inflation accounts for a portion of our revenue growth. The Department Stores Inventory Price Index (Bureau of Labor Statistics) is an indicator of the impact of inflation on certain retailers. This index rose from 4.9% in 1978 to 5.8% in 1979 and to 6.3% in 1980. The 1980 increase exceeded 1980 comparable revenue growth, suggesting that total comparable store revenues did not keep pace with inflation.

Revenue Increase (Decrease)

	1980		1979		1978	
	All Stores	**Comparable Stores**	All Stores	Comparable Stores	All Stores	Comparable Stores
Target	**37%**	**8%**	25%	9%	23%	8%
Mervyn's	**26**	**13**	37	20	30	18
Department Stores	**3**	**(1)**	—	2	11	4
Specialty Merchandisers	**8**	**1**	6	8	20	14
Total	**19%**	**5%**	14%	8%	19%	9%

Credit sales of $1,446,542 were up 7% in 1980, compared with a 13% increase in 1979. Bank card sales produced approximately 20% of credit sales in 1980, 21% in 1979 and 18% in 1978. Finance charge revenues of $64,641 increased 14% in 1980 and 15% in 1979. At the same time, the provision for bad debts on retail credit sales increased 33% in 1980 and 32% in 1979.

Revenues per square foot of all stores provide a measure of productivity. Target's revenues per square foot declined as a result of including the newly acquired Ayr-Way stores, which are currently operating at a lower level of sales productivity.

Revenues Per Square Foot*
(Unaudited)

	1980	1979	1978
Target	**$143**	$148	$138
Mervyn's	**165**	154	136
Department Stores	**114**	115	115
Specialty Merchandisers	**163**	166	159

*Average of beginning and end of year square feet. Data for all years exclude Lipmans and Team.

Cost of sales increased at a faster rate than sales in each of the last two years, resulting in a declining gross margin rate. This decline can be attributed to three major factors:

- *The changing relative contributions of revenues by our business segments.* Target's contribution to total revenues has increased each year, from 29% in 1977 to 38% in 1980, while the department stores, which provided 42% of total revenues in 1977, contributed only 30% in 1980. As a result, a higher percentage of revenues is provided at Target's lower margin and a smaller percentage at the higher margins of the department stores. This shift is consistent with the Corporation's growth plans and will result in continued pressure on the gross margin rate.

- *The accelerating rate of inflation.* Our merchandise costs increased at a faster rate than our selling prices. Dayton Hudson uses the last-in, first-out (LIFO) method of inventory valuation to provide a better matching of current costs with current revenues. We disclose the impact of LIFO on our earnings in order to facilitate comparison with competitors who may be using the first-in, first-out (FIFO) method of inventory valuation.

- *Promotional markdowns* taken to remain competitive.

Operating Expenses, as a percent of sales, have increased slightly over the past three years to 28.5% in 1980, from 28.2% in 1979 and 28.0% in 1978. These costs are primarily buying and occupancy costs and selling, publicity and administrative expenses, but also include rent, depreciation (including depreciation on capital leases) and taxes other than income taxes. The ability of the Corporation to minimize expense rate increases over the past three years reflects in part the increasing relative size of Target, which, as a low-margin operation, typically incurs lower operating expenses per sales dollar than our other Retail segments.

Selling, publicity and administrative expenses increased at a rate consistent with the 1978 and 1979 increases. The increase accounts for more than half of the total increase in operating expenses and resulted mainly from higher payroll costs reflecting the increased minimum wage.

Start-up Costs, the expenses involved in opening new stores, increased 29% in 1980, compared to a 14% decline in 1979 and a 34% increase in 1978. This year's increase is a result of the record number of store openings in 1980, as well as the Ayr-Way purchase. The 1979 decline was partially due to the capitalization of certain costs which had previously been expensed. We have restated start-up expenses to reflect a change in internal classification.

Corporate Expense decreased $4.4 million in 1980, compared with increases experienced over the past two years. The improvement reflects a $2.9 million gain on the early repurchase of outstanding debentures. Charitable contributions expense also decreased in 1980, because of lower 1980 income subject to Federal taxes. Excluding the 1980 gain on the debentures and the 1978-1980 contributions expenses, Corporate expense increased 3% in 1980 and 5% in 1979.

Interest Expense would have shown an increase of $12.2 million in 1980, had it not been for the capitalization of $8.1 million in interest charges. The increase reflects the planned use of additional external long-term debt to finance the growth of our Retail businesses. In accordance with this plan, a $100 million offering of 25-year sinking fund debentures was completed in the second quarter of 1980.

Interest Income declined $2.2 million in 1980, following an $8.4 million increase in 1979. This reflects the investment in our Retail operations of the cash proceeds from our Real Estate property sales.

Income Tax Rate for Retail operations fell to 44.8% from 47.5% in 1979, and was a significant factor in the 1980 increase in earnings per share.

The Retail income tax provisions for 1980, 1979 and 1978 result in effective tax rates which vary from the Federal tax rates in effect during the periods. A reconciliation between the amounts determined using the Federal rate and the Corporation's Retail tax provisions is as follows:

	1980		1979		1978	
	Amount	**% of Earnings Before Income Taxes**	Amount	% of Earnings Before Income Taxes	Amount	% of Earnings Before Income Taxes
Computed amount, at Federal statutory rate	**$115,131**	**46.0%**	$110,711	46.0%	$ 95,472	48.0%
State income taxes, net of Federal tax effect	**10,387**	**4.2**	10,926	4.5	9,182	4.6
Unusual expenses	**—**	**—**	—	—	2,484	1.3
Investment tax credit	**(12,615)**	**(5.0)**	(7,534)	(3.1)	(6,463)	(3.3)
Other	**(861)**	**(.4)**	102	.1	586	.3
	$112,042	**44.8%**	$114,205	47.5%	$101,261	50.9%

The components of the provision for income taxes are:

		Total	Current	Deferred
1980	**Federal**	**$ 94,379**	**$ 76,497**	**$ 17,882**
	State	**17,663**	**15,817**	**1,846**
	Total	**$112,042**	**$ 92,314**	**$ 19,728**
1979	Federal	$ 94,839	$ 84,388	$ 10,451
	State	19,366	18,349	1,017
	Total	$114,205	$102,737	$ 11,468
1978	Federal	$ 83,767	$ 79,003	$ 4,764
	State	17,494	17,378	116
	Total	$101,261	$ 96,381	$ 4,880

Deferred income taxes are provided for income and expenses which are recognized in different fiscal years for financial reporting and for income tax purposes. The timing differences and the related deferred taxes are:

	1980	1979	1978
Excess of tax over book depreciation	**$ 9,562**	$ 5,870	$ 1,556
Deferred income on installment sales	**6,155**	10,253	12,072
Capitalized interest	**4,069**	—	—
Repurchase of debentures	**1,418**	—	—
Lease capitalization	**(744)**	(755)	(904)
Writedown of assets	**(621)**	(2,697)	(5,880)
Other	**(111)**	(1,203)	(1,964)
Provision for deferred taxes	**$19,728**	$11,468	$ 4,880

Significant Events

Acquisition

On October 10, 1980, the Corporation purchased all of the capital stock and certain related assets, including working capital, of Ayr-Way Stores Corporation for cash and assumption of certain indebtedness. The chain of 40 stores is now an operating region of Target. The Consolidated Results of Operations include Ayr-Way's operating results since September 7, 1980, the date at which the purchase became effective for accounting purposes. Ayr-Way's revenues during this period were $137,475. Ayr-Way's revenues for the 31 weeks ended September 6, 1980 and for fiscal 1979 were $158,605 and $289,127, respectively.

Ayr-Way's size, in terms of assets, revenues and net income, is not material to the Corporation as a whole. For this reason, and because it would not be a meaningful indicator of future results, pro forma combined results of operations are not presented for pre-acquisition periods.

Unusual Expenses

Unusual expenses in 1978 include $3,700 for the disposition of two of our Retail operations, Lipmans and Team, a $13,200 provision for loss on the closing and demolition of Hudson's downtown Detroit store, and expenses of $2,850 resulting from our merger with Mervyn's. The Mervyn's merger took place in May 1978 and was accounted for as a pooling of interests.

Discontinued Operations

In fiscal 1978, the Corporation announced its plans to dispose of its Real Estate business. Since that time, the majority of its Real Estate assets have been sold. During 1980 the Corporation sold its management and development business to a group which included some former executive employees of the Real Estate subsidiaries. The only assets remaining to be sold are interests in three developed shopping centers and various undeveloped land parcels.

The 1978 sale of nine shopping centers resulted in gains of $162,371 in that year, $16,740 in 1979 and $3,963 in 1980. The Corporation recognized a net gain of $51,142 in 1979 from the sale of two shopping centers and its interests in four joint ventures. Additional gains may be recognized on these sales if the properties' performance exceeds predetermined standards.

The Corporation sold interests in four regional shopping center projects to The Equitable Life Assurance Society of the United States during February 1981, resulting in a net gain of about $12 million, which will be recognized in the first quarter of 1981.

Quarterly Results (Unaudited)

The unaudited interim financial data furnished below was prepared using the same accounting policies we apply to our annual data. In addition, some of our accounting policies apply only to our interim data. The most significant of these are:

- We expense costs of opening new stores evenly throughout the year the store opens.
- We record real estate taxes, bonuses, contributions, professional fees and pension plan expense evenly throughout each year, based on the anticipated annual amounts.
- We incur additional rental expense on most of our leased stores if the stores' annual sales exceed certain stipulated amounts. We estimate and record this contingent rent by apportioning these sales throughout the year and then recording additional rent when each month's sales exceed the stipulated amounts.
- We allocate our estimated annual LIFO expense to our interim periods based on monthly sales and to our operating companies based upon historical experience. The fourth quarter of each year includes an adjustment to reflect the actual effect of inflation on retail inventories as determined by the Bureau of Labor Statistics annual index.
- We use our anticipated effective annual tax rate to compute income taxes on our quarterly earnings. Income taxes relating to significant gains in property sales are computed separately, primarily at capital gain rates.

The Corporation's earnings growth was adversely affected through the first three quarters of 1980 by the impact of the business recession. Despite revenue growth throughout the year, net earnings declined from 1979 by 8% in the first quarter, 19% in the second quarter and 1% in the third quarter. Inflationary expense pressures and increased promotional activity, resulting in lower gross margin rates, made it difficult to convert revenue increases into earnings increases, particularly in the spring season. Strong Christmas sales, however, boosted fourth-quarter revenues above expectations, and contributed to a 25% earnings increase over the fourth quarter of 1979. Fourth-quarter earnings growth reflects an improved expense rate, although our gross margin rate declined.

The provision for the LIFO inventory method increased $.17 per share in 1980. The following table shows the impact of the LIFO provision on quarterly earnings per share.

Quarter	**1980**	1979
First	**$.14**	$.08
Second	**.16**	.13
Third	**.25**	.21
Fourth	**.21**	.17
Total Year	**$.76**	$.59

(Millions of Dollars, Except Per Share Data)	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		TOTAL YEAR	
	1980	1979	**1980**	1979	**1980**	1979	**1980**	1979	**1980**	1979
Revenues	**$756.6**	$656.8	**$854.6**	$742.5	**$993.4**	$822.4	**$1,428.9**	$1,163.1	**$4,033.5**	$3,384.8
Gross Profit	**$224.4**	$199.6	**$238.5**	$214.7	**$299.6**	$253.8	**$ 428.4**	$ 363.3	**$1,190.9**	$1,031.4
Net Earnings (Loss):										
Continuing	**$ 13.2**	$ 14.4	**$ 14.3**	$ 17.6	**$ 29.7**	$ 29.9	**$ 81.0**	$ 64.6	**$ 138.2**	$ 126.5
Discontinued	**3.5**	5.2	**.9**	26.9	**3.8**	(.5)	**.3**	34.0	**8.5**	65.6
Consolidated	**$ 16.7**	$ 19.6	**$ 15.2**	$ 44.5	**$ 33.5**	$ 29.4	**$ 81.3**	$ 98.6	**$ 146.7**	$ 192.1
Earnings (Loss) Per Share:										
Continuing	**$ .55**	$ .61	**$ .60**	$ .74	**$ 1.25**	$ 1.25	**$ 3.40**	$ 2.73	**$ 5.80**	$ 5.33
Discontinued	**.15**	.22	**.04**	1.14	**.16**	(.02)	**.01**	1.43	**.36**	2.77
Consolidated	**$ .70**	$ .83	**$ .64**	$ 1.88	**$ 1.41**	$ 1.23	**$ 3.41**	$ 4.16	**$ 6.16**	$ 8.10

Business Segment Trends

The information on the facing page details the operations of Dayton Hudson's four business segments — Target, Mervyn's, department stores and specialty merchandisers. See pages 13-15 for a review of each segment.

Revenues increased at a compound annual rate of 17% over the past five years (1975-1980). Mervyn's achieved the highest compound growth rate over this period at 33%, followed by Target at 25%. Department stores experienced the lowest compound growth rate, increasing 6% between 1975 and 1980.

In 1980 Target displaced the department stores as the largest provider of total revenues. Target's contribution to total revenues has increased 10 percentage points since 1975, while the department stores' portion has declined 18 percentage points. These shifts are consistent with the rapid expansion plans for Target, Mervyn's and B. Dalton Bookseller.

Revenues per segment are principally from unaffiliated customers. Intersegment revenues are immaterial.

The rate of increase in total operating profit declined from 17% in 1978 to 7% in 1979 and 5% in 1980 as a result of the declining gross margin rate and our expense rate pressures.

During the past six years the rapid growth of Target, Mervyn's and B. Dalton has resulted in a decline in the proportion of total operating profit contributed by the department store segment. Although still slightly ahead of Target in total 1980 operating profit, the department stores contributed 33% of the total in 1980, compared with 54% in 1975. In that same period, Target's contribution increased to 32% from 22%, and Mervyn's increased to 27% from 14%.

Operating profit includes all revenues and expenses from Retail operations except Corporate and interest expense, unusual expenses and income taxes.

Business Segment Comparisons

(Millions of Dollars)

	1980	1979	1978	1977	1976	1975
Revenues						
Target	**$1,531.7**	$1,120.5	$ 898.7	$ 729.0	$ 613.4	$ 511.9
Mervyn's	**826.9**	655.9	479.5	369.0	268.0	198.0
Department stores	**1,203.9**	1,173.8	1,172.3	1,053.3	952.3	888.7
Specialty merchandisers	**471.0**	434.6	411.4	343.4	292.1	253.6
Total	**$4,033.5**	$3,384.8	$2,961.9	$2,494.7	$2,125.8	$1,852.2
Operating profit						
Target	**$ 91.1**	$ 72.9	$ 61.4	$ 46.4	$ 41.3	$ 33.7
Mervyn's	**76.3**	68.6	44.5	37.4	24.2	21.1
Department stores	**94.0**	103.0	115.3	104.1	94.4	83.2
Specialty merchandisers	**20.1**	23.6	30.5	27.6	19.8	16.0
Total	**281.5**	268.1	251.7	215.5	179.7	154.0
Corporate expense	**17.6**	22.0	18.8	13.2	12.5	14.6
Interest (income) expense	**5.2**	(1.1)	8.2	9.9	8.9	9.0
Interest expense on capital leases	**8.4**	6.5	6.0	5.2	4.4	4.1
Unusual expenses	**—**	—	19.8	—	—	—
Earnings before income taxes	**250.3**	240.7	198.9	187.2	153.9	126.3
Income taxes	**112.1**	114.2	101.3	95.5	79.4	65.6
Net earnings from continuing operations	**138.2**	126.5	97.6	91.7	74.5	60.7
Net earnings (loss) from discontinued operations	**8.5**	65.6	167.3	6.2	2.5	(.1)
Net earnings	**$ 146.7**	$ 192.1	$ 264.9	$ 97.9	$ 77.0	$ 60.6
Operating profit as a percent of revenues						
Target	**5.9%**	6.5%	6.8%	6.4%	6.7%	6.6%
Mervyn's	**9.2**	10.5	9.3	10.1	9.0	10.7
Department stores	**7.8**	8.8	9.8	9.9	9.9	9.4
Specialty merchandisers	**4.3**	5.4	7.4	8.0	6.8	6.3
Total assets						
Target	**$ 708.4**	$ 443.9	$ 331.2	$ 261.5	$ 213.9	$ 187.2
Mervyn's	**434.3**	322.8	218.4	155.2	116.6	82.1
Department stores	**734.1**	686.1	683.6	626.4	543.7	489.7
Specialty merchandisers	**224.8**	205.4	185.9	151.2	121.9	106.9
Corporate	**17.9**	93.7	66.2	51.6	70.2	54.0
	2,119.5	1,751.9	1,485.3	1,245.9	1,066.3	919.9
Discontinued operations, net	**35.7**	41.3	152.2	165.5	146.8	163.3
Total	**$2,155.2**	$1,793.2	$1,637.5	$1,411.4	$1,213.1	$1,083.2

Total assets are those used in the operations of each segment. Corporate assets are primarily cash.

	1980	1979	1978	1977	1976	1975
Depreciation and amortization						
Target	**$ 21.8**	$ 13.7	$ 9.8	$ 8.8	$ 7.3	$ 6.7
Mervyn's	**12.9**	8.4	4.9	3.8	2.6	2.0
Department stores	**25.0**	22.3	20.7	19.7	17.7	16.1
Specialty merchandisers	**7.6**	5.8	4.6	3.8	3.3	2.9
Corporate	**.4**	.4	.4	.3	.2	.2
	67.7	50.6	40.4	36.4	31.1	27.9
Less depreciation on capital leases	**8.2**	6.9	6.0	5.2	4.3	3.7
Total	**$ 59.5**	$ 43.7	$ 34.4	$ 31.2	$ 26.8	$ 24.2
Capital expenditures						
Target	**$ 125.7**	$ 102.9	$ 63.7	$ 38.2	$ 23.4	$ 5.8
Mervyn's	**67.5**	46.4	34.5	10.5	8.7	3.1
Department stores	**51.8**	46.1	44.7	43.4	38.9	19.2
Specialty merchandisers	**20.0**	22.5	13.1	10.5	5.1	5.2
Corporate	**.2**	.3	.1	2.3	—	.1
	265.2	218.2	156.1	104.9	76.1	33.4
Less expenditures on capital leases	**.4**	6.9	20.0	10.0	9.8	2.0
Total	**$ 264.8**	$ 211.3	$ 136.1	$ 94.9	$ 66.3	$ 31.4
Number of stores (unaudited)						
Target	**137**	80	67	59	52	48
Mervyn's	**69**	60	51	42	35	26
Department stores	**50**	45	51	46	44	41
Specialty merchandisers	**575**	476	419	369	317	277
Retail square feet (thousands) (unaudited)						
Target	**13,229**	8,197	6,917	6,117	5,385	5,065
Mervyn's	**5,393**	4,638	3,902	3,154	2,566	1,855
Department stores	**10,855**	10,210	10,799	10,126	9,690	9,210
Specialty merchandisers	**3,061**	2,736	2,540	2,228	1,982	1,847
Start-up costs (unaudited)						
Target	**$ 10.2**	$ 5.6	$ 4.4	$ 4.3	$ 2.9	$ 1.3
Mervyn's	**3.3**	3.1	2.2	1.1	1.4	.3
Department stores	**3.7**	3.6	7.0	5.5	6.4	2.8
Specialty merchandisers	**1.6**	2.3	3.3	1.7	1.2	1.0
Total	**$ 18.8**	$ 14.6	$ 16.9	$ 12.6	$ 11.9	$ 5.4

Consolidated Results of Operations

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars, Except Per Share Data)

	1980	1979	1978
REVENUES	**$4,033,536**	$3,384,849	$2,961,884
COSTS AND EXPENSES			
Cost of retail sales, buying and occupancy	**2,842,641**	2,353,463	2,055,362
Selling, publicity and administrative	**734,322**	626,559	539,474
Depreciation and amortization	**59,536**	43,720	34,401
Rental expense	**59,762**	50,836	43,530
Interest:			
Expense (net of $8,057 capitalized in 1980)	**13,273**	9,162	9,978
Income	**(8,066)**	(10,224)	(1,771)
Interest and depreciation on capital leases	**16,637**	13,429	12,023
Taxes other than income taxes	**65,147**	57,229	50,237
Unusual expenses	—	—	19,750
	3,783,252	3,144,174	2,762,984
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**250,284**	240,675	198,900
INCOME TAXES			
Current	**92,314**	102,737	96,381
Deferred	**19,728**	11,468	4,880
	112,042	114,205	101,261
NET EARNINGS FROM CONTINUING OPERATIONS	**138,242**	126,470	97,639
DISCONTINUED OPERATIONS			
Net gain from property sales	**8,983**	68,708	163,775
Other operations	**(506)**	(3,089)	3,491
EARNINGS FROM DISCONTINUED OPERATIONS, net of income taxes of $3,260, $27,839 and $82,554	**8,477**	65,619	167,266
NET EARNINGS	**$ 146,719**	$ 192,089	$ 264,905
NET EARNINGS PER SHARE			
Continuing operations	**$ 5.80**	$ 5.33	$ 4.12
Discontinued operations	**.36**	2.77	7.09
	$ 6.16	$ 8.10	$ 11.21

These financial statements should be read in conjunction with information contained in pages 18-23 and 28-37.

Consolidated Statements of Financial Position

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars) ASSETS	1980 January 31, 1981	1979 February 2, 1980
CURRENT ASSETS		
Cash	$ 28,379	$ 28,020
Marketable securities	—	66,798
Accounts receivable (net of allowance for doubtful accounts of $26,607 and $21,867)	556,415	521,432
Merchandise inventories (net of accumulated LIFO provision of $130,163 and $97,506)	543,801	424,680
Other	12,824	9,935
Discontinued segment, net	(892)	19,066
	1,140,527	1,069,931
PROPERTY AND EQUIPMENT		
Land	111,125	91,829
Buildings and improvements	643,850	482,876
Fixtures and equipment	340,514	219,546
Construction in progress	64,446	75,597
Accumulated depreciation	(287,741)	(240,075)
	872,194	629,773
PROPERTY UNDER CAPITAL LEASES, net	100,351	67,221
DISCONTINUED SEGMENT, net	36,594	22,203
OTHER	5,568	4,058
	$2,155,234	$1,793,186

LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Notes payable	$ 28,482	$ —
Accounts payable (including outstanding drafts of $74,039 and $64,151)	358,399	298,131
Accrued liabilities	195,321	163,718
Income taxes payable	66,809	66,454
Deferred income taxes — installment sales	96,615	90,460
Current portion of capital lease obligations and long-term debt	13,631	12,335
	759,257	631,098
CAPITAL LEASE OBLIGATIONS	103,336	73,027
LONG-TERM DEBT	213,800	117,602
OTHER	12,473	8,848
COMMITMENTS AND CONTINGENCIES	—	—
SHAREHOLDERS' INVESTMENT		
Preferred Stock	227	453
Common Stock	23,876	23,743
Additional paid-in capital	63,481	60,902
Retained earnings	978,784	877,513
	1,066,368	962,611
	$2,155,234	$1,793,186

These financial statements should be read in conjunction with information contained in pages 18-23 and 28-37.

Consolidated Statements of Changes in Financial Position

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	1980	1979	1978
SOURCES			
Continuing operations:			
Net earnings	**$138,242**	$126,470	$ 97,639
Depreciation and amortization			
Property and equipment	**59,536**	43,720	34,401
Capital leases	**8,225**	6,955	6,020
Other	**216**	74	54
Deferred taxes	**8,550**	1,215	(7,015)
Provision for loss on store closing	**—**	—	13,200
Provided by operations	**214,769**	178,434	144,299
Increase in long-term debt	**110,900**	36,004	812
Disposals of property and equipment	**3,084**	2,449	2,594
Termination of capital leases	**3,611**	—	—
Disposition of Lipmans and Team	**—**	6,260	—
Other, net	**238**	2,731	4,719
	332,602	225,878	152,424
Discontinued operations	**(5,914)**	55,257	156,066
	$326,688	$281,135	$308,490
USES			
Continuing operations:			
Acquisition of Ayr-Way			
Capital leases	**$ 44,615**	$ —	$ —
Property and equipment	**40,222**	—	—
Capital lease obligations	**(39,665)**	—	—
Long-term debt	**(6,069)**	—	—
Other	**4,403**	—	—
	43,506	—	—
Capital expenditures:			
Property and equipment	**264,819**	211,322	136,111
Capital leases	**351**	6,916	19,989
Reduction of long-term debt	**20,771**	11,399	10,381
Net reduction (increase) in capital lease obligations	**6,997**	(285)	(14,868)
Termination of capital lease obligations	**2,359**	—	—
Dividends	**45,448**	40,539	38,723
Increase (decrease) in working capital	**(57,563)**	11,244	118,154
	$326,688	$281,135	$308,490
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL			
Cash	**$ 359**	$ 2,571	$ 6,559
Marketable securities	**(66,798)**	30,791	1,048
Accounts receivable	**34,983**	52,582	66,266
Merchandise inventories	**119,121**	31,243	56,090
Other	**2,889**	(2,815)	3,362
Discontinued segment, net	**(19,958)**	(15,322)	48,399
Increase in current assets	**70,596**	99,050	181,724
Notes payable	**28,482**	—	(4,497)
Accounts payable	**60,268**	51,160	2,932
Accrued liabilities	**31,603**	21,263	32,167
Income taxes payable	**355**	3,836	19,647
Deferred income taxes — installment sales	**6,155**	10,927	12,072
Current portion of capital lease obligations and long-term debt	**1,296**	620	1,249
Increase in current liabilities	**128,159**	87,806	63,570
Increase (decrease) in working capital	**$ (57,563)**	$ 11,244	$118,154

These financial statements should be read in conjunction with information contained in pages 18-23 and 28-37.

Consolidated Statement of Shareholders' Investment

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	Total	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings
BALANCE JANUARY 28, 1978	$ 579,807	$522	$23,546	$55,958	$499,781
Net earnings:					
Continuing operations	97,639				97,639
Discontinued operations	167,266				167,266
Dividends declared	(38,723)				(38,723)
Stock options and conversions of Preferred Stock	2,376	(57)	106	2,327	
BALANCE FEBRUARY 3, 1979	808,365	465	23,652	58,285	725,963
Net earnings:					
Continuing operations	126,470				126,470
Discontinued operations	65,619				65,619
Dividends declared	(40,539)				(40,539)
Stock options and conversions of Preferred Stock	2,696	(12)	91	2,617	
BALANCE FEBRUARY 2, 1980	962,611	453	23,743	60,902	877,513
Net earnings:					
Continuing operations	138,242				138,242
Discontinued operations	8,477				8,477
Dividends declared	(45,448)				(45,448)
Stock options and conversions of Preferred Stock	2,486	(226)	133	2,579	
BALANCE JANUARY 31, 1981	$1,066,368	$227	$23,876	$63,481	$978,784

Preferred Stock — Authorized 200,000 shares, voting, without par value; outstanding at January 31, 1981 and February 2, 1980, 5,067 and 23,656 shares, respectively, of $5 Cumulative Convertible Preferred Stock and 17,625 and 21,625 shares, respectively, of $6 Cumulative Convertible Preferred Stock. Both issues have a liquidation value of $100 per share and are redeemable at the Corporation's option at $100 per share. Each share is convertible into 2⅔ shares of Common Stock.

Common Stock — Authorized 60,000,000 shares, $1 par value; 23,875,931 and 23,742,874 shares issued and outstanding at January 31, 1981 and February 2, 1980, respectively.

These financial statements should be read in conjunction with information contained on pages 18-23 and 28-37.

Summary of Accounting Policies

(Thousands of Dollars)

Dayton Hudson Corporation follows generally conservative accounting policies.

Consolidation The financial statements include the accounts of Dayton Hudson Corporation and subsidiaries, all of which are wholly owned, after elimination of material intercompany balances and transactions.

Marketable Securities The Corporation records short-term investments at the lower of cost or market. The amount shown in the Statements of Financial Position at February 2, 1980 is the cost of the securities and approximates market value.

Accounts Receivable and Allowance for Losses Our policy is to write off accounts receivable when any portion of the balance is more than 12 months past due, or when the scheduled payments have not been received for six consecutive months. We base our allowance for uncollectible customer accounts receivable on our past experience with bad debts and the ages of the various accounts. Some of our accounts which are due after one year are classified as current. This is consistent with the practices of other retailers.

For financial reporting, the Corporation recognizes gross profit on retail installment sales when the sales are recorded. For income tax purposes, we use the installment method of reporting profit on installment sales.

Inventories Inventories and the related cost of sales are accounted for by the retail inventory method using the last-in, first-out (LIFO) basis.

Property and Equipment Property and equipment is recorded at cost less accumulated depreciation.

For financial reporting, we compute depreciation on our property using the straight-line method. For tax purposes, we use accelerated depreciation. For those leases which we have capitalized on our Statements of Financial Position, we deduct rent expense for tax purposes rather than depreciation and interest.

Investment Tax Credit The investment tax credit reduces income taxes in the year we begin using the property.

Financing Costs We amortize expenses incurred in obtaining long-term financing over the term of the related debt.

Per Share Data To compute net earnings per share for consolidated and continuing operations, we deduct Preferred Stock dividends from net earnings and then divide by the weighted average number of common shares outstanding. Per share amounts for discontinued operations are similarly computed, using net earnings from discontinued operations. Exercise of stock options and stock appreciation rights, earnout of performance shares and conversions of Preferred Stock would not materially dilute the Corporation's earnings per share.

Changes in Accounting Policies and Methods of Application As of the beginning of 1980, the Corporation began capitalizing interest costs related to most of our construction, particularly our new stores. Because these costs were previously expensed, the change resulted in additional net earnings of approximately $4,000 in 1980. The change was made in accordance with Statement of Financial Accounting Standards No. 34. Prior financial statements were not restated, in accordance with the Statement.

As of the beginning of 1979, we changed our criteria for the capitalization of certain costs. Because these costs were previously expensed, this change in the application of an accounting policy resulted in additional net earnings of approximately $2,000 in 1979.

In 1978, the Corporation retroactively implemented the provisions of Statement of Financial Accounting Standards No. 13 on capitalization of leases. The impact of lease capitalization is more fully described on page 30.

Fiscal Year The Corporation's fiscal year ends on the Saturday nearest to January 31. Fiscal 1980, which had 52 weeks, ended on January 31, 1981, 1979 (52 weeks) ended on February 2, 1980, and 1978 (53 weeks) ended on February 3, 1979.

Reclassification of Accounts We have reclassified some of the prior years' account balances to be consistent with 1980 classifications. None of these reclassifications affected net earnings.

Debt and Leases

(Thousands of Dollars, Except Per Share Data)

As indicated on page 19, the capitalization of the Corporation at the end of 1980 included $578,400 of debt and debt equivalents (capital and operating leases). This section provides more information on these components of our capital structure.

Lines of Credit

The Corporation had $28,482 of notes payable outstanding at January 31, 1981. Of this amount, $22,982 consisted of commercial paper issued by the Corporation and $5,500 was borrowed under bank lines of credit. At the end of 1980, we maintained $85,500 of unsecured lines of credit with 17 banks. Borrowings under these lines are at the prime interest rate or at other rates agreed upon at the time of the borrowings. The Corporation compensates its banks for the lines of credit through the payment of fees and the maintenance of compensating balances. During 1980, our line agreements required us to pay fees of $286 and maintain average net collected compensating balances (ledger balances less float, as computed by the banks) of $2,243. There was at no time any legal restriction on our ability to withdraw these balances, and they served as part of the Corporation's operating cash balance.

At year-end, the Corporation also had additional available credit of $75,000 in the form of an annually renewable, three-year revolving credit agreement with two lending institutions. We pay a fee for this availability, and have the option of borrowing at the prime rate or at a premium over the London Inter-Bank Offered Rate. Any balance outstanding under the agreement at the end of the three-year period will be convertible at our option into a four-year term loan.

During the first quarter of 1981, we increased the amount available under this agreement to $125,000 with five additional banks. We also obtained commitments from certain other lending institutions for an additional $75,000 of revolving credit availability.

Long-Term Debt

The Corporation added significantly to its long-term debt during 1980. At year-end, long-term debt due beyond one year was:

	Jan. 31, 1981	Feb. 2, 1980
Sinking Fund Debentures	**$116,702**	$ 29,671
Sinking Fund Notes	**50,000**	52,400
Other Unsecured Notes — maturing at various dates to 2005 and bearing interest from 6% to 8⅞%	**16,285**	8,934
Mortgage Notes — notes and contracts for purchase of real estate, payable over periods ranging to 30 years from inception and bearing interest from 5½% to 10½%	**30,813**	26,597
Total	**$213,800**	$117,602

Principal payments on this long-term debt over the next five years will be $7,937 in 1981, $6,285 in 1982, $4,109 in 1983, $4,120 in 1984 and $6,525 in 1985.

In May 1980, we issued $100,000 of Sinking Fund Debentures at a rate of 10⅞%. Annual repayments of $6,650 begin in 1991, with the final payment due in 2005. Two other issues of Sinking Fund Debentures were outstanding at year-end: $4,649 at 7¾% and $12,053 at 9¾%. These debentures are redeemable through minimum annual sinking fund payments of $1,250 each. During 1980, we repurchased $12,854 of the 7¾% Debentures and $115 of the 9¾% Debentures. This resulted in a gain of $2,919 which is included in Selling, Publicity and Administrative Expense in our Results of Operations.

Sinking Fund Notes of $50,000 at January 31, 1981 represent borrowings under a private placement agreement at an interest rate of 8⅜%. Annual principal repayments of $900 begin in 1983, increase to $3,200 in 1985 and continue until 1999.

Included in Other Unsecured Notes are two industrial development revenue bond issues completed during 1980 ($10,900), a term loan from a group of banks ($3,125) and various other unsecured obligations of varying maturities.

In most of our long-term debt agreements, as well as the revolving credit agreement, the Corporation has agreed to observe certain restrictions for the accommodation of the lenders. Among these are provisions relating to working capital, sales of receivables, dividends and capital stock purchases. Under the most restrictive of these provisions, $201,758 of our retained earnings at the end of 1980 was available for dividends and other types of restricted payments.

As a condition of borrowing under our mortgage notes and contracts, we have pledged related land, buildings and equipment as collateral. At January 31, 1981, $42,765 of our fixed assets served as collateral for these loans.

Leases

The Corporation owns the majority of its department stores. We lease most of our Mervyn's and specialty merchandising stores, as well as nearly half of our Target stores (including 33 of the stores added in 1980 with the acquisition of Ayr-Way Stores Corporation).

Most Mervyn's and specialty merchandising stores are leased under agreements which are classified as operating leases. Most of the lease agreements for our department and Target stores (including the acquired Ayr-Way stores) are classified as capital leases. In addition, Mervyn's leases equipment under agreements with terms ranging up to 10 years, which are also classified as capital leases. Most of our leases include options to renew, with renewal terms varying from five to 40 years. Certain leases also include options to purchase the property.

The detail of property and equipment leased under agreements which we have capitalized on our Statements of Financial Position is:

	Jan. 31, 1981	Feb. 2, 1980
Property under capital leases		
Real property	**$110,161**	$65,546
Equipment	**30,417**	37,550
Accumulated depreciation	**(40,227)**	(35,875)
	$100,351	$67,221

If we were to capitalize the minimum lease payments for all of our operating and capital leases with initial terms of over one year, using incremental interest rates at the inception of the leases, the present value of these payments would be approximately $327,500 at January 31, 1981, and $267,000 at February 2, 1980.

Under current accounting principles, we do not expense rent on our capital leases, but instead record depreciation and interest on the leases. The impact of this procedure has been to decrease our earnings in each of the last three years as follows:

	1980	1979	1978
Reduction in rent expense	**$14,796**	$11,272	$10,299
Interest expense	**(8,412)**	(6,474)	(6,003)
Depreciation expense	**(8,225)**	(6,955)	(6,020)
Gains on termination of leases	**264**	—	—
Effect on:			
Earnings before income taxes	**$(1,577)**	$(2,157)	$(1,724)
Net earnings per share	**$ (.04)**	$ (.05)	$ (.04)

The majority of our leases entitle the lessor to receive additional rent if sales of the leased stores exceed certain stipulated amounts. The contingent payments are usually based on a percentage of any sales over the stipulated levels. Certain leases require us to pay real estate taxes, insurance and other expenses in addition to rent; in these cases, we have included these expenses in Occupancy Costs in our Results of Operations.

The following table shows our minimum rental payments on all operating leases with terms in excess of one year, plus contingent rent payments based upon a percentage of sales:

	1980	1979	1978
Minimum rents	**$35,957**	$30,818	$27,701
Contingent rents:			
Operating leases	**12,881**	10,235	7,936
Capital leases	**1,070**	838	1,111
Less sublease income	**(1,131)**	(739)	(1,038)
	$48,777	$41,152	$35,710

Future minimum lease payments which must be made under lease agreements considered non-cancellable as of the end of 1980 are:

	Operating Leases	Capital Leases
1981	$ 37,751	$ 17,350
1982	35,642	16,637
1983	33,617	16,062
1984	31,890	15,334
1985	30,594	14,386
After 1985	269,270	171,847
Total minimum lease payments (a)	$438,764	251,616
Less: Executory costs		15,153
Interest		127,433
Capitalized lease obligations including current portion of $5,694		$109,030

(a) Minimum rental payments have not been reduced by minimum sublease rentals due in the future under noncancellable subleases ($3,769 for operating leases, $6,245 for capital leases).

Commitments and Contingencies

Commitments for construction of new facilities and the purchase of real estate amounted to approximately $66,396 at January 31, 1981.

The Corporation and/or its subsidiaries are contingently liable for approximately $50,360 of mortgage debt at January 31, 1981, on certain office properties sold in 1976 and the shopping centers sold in 1978. The purchasers have agreed to indemnify the Corporation and/or its subsidiaries for any costs they might incur in relation to the mortgages.

The nature and scope of the Corporation's business brings its properties, operations and representatives into regular contact with the general public and a variety of other business and governmental entities, all of which subject the Corporation to exposure to litigation arising out of the ordinary course of business. Considering the insurance which is in place for a portion of the litigation, and noting that the ultimate consequences of any particular litigation may not be presently conclusively determinable, it is the opinion of the management of the Corporation and of its legal counsel that none of the current litigation involving the Corporation or any of its subsidiaries or divisions will have a material effect on the operations or financial condition of the Corporation, taken as a whole.

Inflation and Changing Prices

(Thousands of Dollars, Except Per Share Data)

Responding to the Impact of Inflation

Inflation is a serious challenge facing business today and will be for many years to come. The impact of inflation on business profitability is an especially difficult problem for the retail industry since there has been a lower rate of inflation in our selling prices than in our expenses. The competitive pressures of retailing do not always allow us to raise our prices to cover increases in the prices of our goods and other expenses.

Although the Corporation has not yet addressed all of the problems connected with inflation, three aspects of our strategic thrust are responsive to the effects of inflation on our business:

■ Improved productivity

One of management's primary goals is to offset the impact of inflation by improving productivity of all our resources. We have attempted to decrease expenses compared to sales. Our 1980 cost of retail sales increased 20% over 1979, while our sales increased only 19% over 1979.

■ Effective resource allocation and strategic balance

The Corporation attempts to ensure that our resource allocation and strategic balance are effective in countering the impact of inflation. We continually review the return on our assets and determine the mix which will best position us for real growth and improved profitability.

In the next five years, approximately 90% of our total capital expenditures will be allocated to our most productive companies, based on return on investment — Target, Mervyn's and B. Dalton Bookseller. The Corporation's capital allocation decisions reflect our belief that the current economic environment adds to the competitive edge of companies that can translate improvements in productivity into a more attractive merchandise offering in terms of price and quality.

We are optimistic about our ability to meet the challenge of inflation because our strategic planning positions us to be responsive to today's economic realities.

■ Formulation of strong financial policies and high standards

Our third basic strategy is to maintain our strong financial position and to adhere to our high performance standards. This conservative posture permits the Corporation to be responsive to changes in the external environment. Our financial policies and performance standards undergo annual review, and have been adjusted when necessary to reflect the impact of inflation. Our dividend policy provides for an increasing return to our shareholders while allowing us to retain funds for investment in our future growth. In addition, we use conservative accounting policies such as the last-in, first-out (LIFO) inventory method which increases our current cash flow by reducing our current tax payments.

Accounting for the Effects of Inflation (Unaudited)

Inflation in the United States continued at a high rate during 1980, further eroding the purchasing power of the dollar. This trend continues to distort measures of financial performance since traditional accounting statements are based on the purchase price of goods and services. During times of significant and continued inflation these statements do not reflect the cumulative effects of increasing costs and changes in the purchasing power of the dollar.

Consequently, traditional financial statements overstate business earnings in "real" terms. Our financial statements do show the impact of inflation on our merchandise sold because we use the last-in, first-out (LIFO) inventory method, which closely reflects the costs to replace inventory. However, the statements do not reflect the costs to replace our productive capacity because depreciation is not based on current asset costs. When the total charges against earnings for assets consumed are less than their current value, the difference not only appears as earnings but, even worse, is taxed as though it were earnings.

To show how traditional income measurement is affected by rapidly changing prices, new accounting standards were issued by the Financial Accounting Standards Board (FASB). The standards require supplementary income calculations based on two methods: current cost accounting and constant dollar accounting.

Each method adjusts only depreciation expense and cost of retail sales to arrive at inflation-adjusted net earnings. Revenues and all other operating expenses are considered to reflect the average price levels for the year and accordingly are not adjusted.

The current cost method adjusts the financial statements shown on pages 24-27 for changes in the prices of our facilities so that the carrying amounts and related depreciation reflect the current cost of replacing the facilities. As previously stated, the cost to replace our inventories has already been reflected in our cost of goods sold by using the LIFO inventory method. Therefore, no adjustment to our net earnings is necessary. However, LIFO inventories on our balance sheet do not reflect current prices. Therefore, on page 32, an adjustment is made to net assets to reflect these current prices.

Management considers the net earnings adjusted for current costs to be the better of the two experimental methods because it reflects more closely the impact of inflation unique to the Corporation. The statements on page 32 show that after the payment of dividends, we retained $62,738 in 1980 and $58,044 in 1979 to finance future growth.

The constant dollar method adjusts the dollars shown on our financial statements to reflect changes in purchasing power. The adjustment to common units of measurement is based on the Consumer Price Index for All Urban Consumers (CPI-U), which measures general inflation based on housing, energy, food and other goods and services.

Management believes constant dollar statements do not accurately represent the impact of inflation on the Corporation, because the CPI-U index measures general inflation rather than price increases relevant to our business. The Department Stores Inventory Price Index (BLS), which is used in our traditional and current cost financial statements, is a more appropriate index for our inventories. Construction indexes or actual costs would be more relevant for our property and equipment.

In 1980, the Corporation's effective tax rate as shown on page 21 was 45%. It is 51% after adjusting our earnings for the esti-

mated current costs to replace our assets and 59% after adjusting our earnings for constant dollars. In 1979 the reported tax rate was 47%, compared with 54% and 62%.

Inflation is also increasing our need for capital. The adjustment to net earnings for current costs includes only the amounts necessary to replace existing facilities. Our cash flow must be sufficiently high to allow us to increase our capital base.

Internally financed investment can take place only after payment of taxes and must compete with dividends for limited funds. In the future, the Corporation intends to use external sources more than we have in the past to make up the balance of our needs.

INFLATION-ADJUSTED STATEMENTS, USING ESTIMATES OF CURRENT COSTS TO REPLACE OUR ASSETS

The value of net assets stated on a current cost basis is higher than the dollar amounts shown in our statements on page 25 as a result of the impact of inflation on inventories and net property and equipment values.

- Inventories are higher because historical figures are based on the LIFO inventory method. The LIFO method understates the current value of the inventory on the balance sheet because the LIFO provisions have accumulated over the years as prices have risen. Therefore, the inventory was adjusted by adding back the cumulative LIFO provision to reflect the current cost to replace the items as follows:

	LIFO Inventory	Accumulated LIFO Provision	FIFO Inventory
1980			
Target	**$203,172**	**$ 32,966**	**$236,138**
Mervyn's	**115,409**	**15,664**	**131,073**
Department stores	**126,412**	**50,822**	**177,234**
Specialty merchandisers	**98,808**	**30,711**	**129,519**
	$543,801	**$130,163**	**$673,964**
1979			
Target	$125,293	$ 23,131	$148,424
Mervyn's	98,526	8,495	107,021
Department stores	108,481	43,540	152,021
Specialty merchandisers	92,380	22,340	114,720
	$424,680	$ 97,506	$522,186

- Net property and equipment values are higher because the costs to replace them are higher today than when they were purchased. Current costs of property and equipment were determined using either similar properties constructed during the year or indexing based on cost changes in our specific property and equipment. The current cost of land was determined based on factors such as present use, location and recent sales of comparable parcels.

  Current cost calculations involve substantial judgments as well as various estimating techniques to limit the cost of accumulating the data. The data reported represent reasonable approximations of the price changes in our business, but they are not precise measurements of the assets and expenses involved.

CONSOLIDATED NET ASSETS (SHAREHOLDERS' INVESTMENT) ADJUSTED FOR THE EFFECT OF INFLATION USING CURRENT COSTS

	January 31, 1981	February 2, 1980
Consolidated net assets (shareholders' investment) as reported on page 27	**$1,066,368**	$ 962,611
Adjustment for estimates of our current costs:		
Increase in value of inventories	**130,163**	97,506
Increase in value of property and equipment, net of depreciation	**292,595**	244,170
Increase in value of leased property and equipment, net of depreciation	**106,755**	54,823
Consolidated net assets (shareholders' investment) after adjustments for current costs	**$1,595,881**	$1,359,110

- **Cost of Retail Sales** – The LIFO inventory method used in our traditional financial statements is used in the determination of current cost of retail sales, since it reflects our current costs to replace our inventories. The BLS is a better index for our inventory than the CPI-U because it is based on items that we purchase rather than items that reflect general inflation. The BLS index has increased at a compound growth rate of 5% over the past five years, compared with the 10% compound growth rate in the CPI-U.

  The LIFO provision by segment for the last three years is:

	Target	Mervyn's	Department Stores	Specialty Merchandisers	Total
1980	**$9,835**	**$7,169**	**$7,282**	**$8,371**	**$32,657**
1979	6,927	3,925	7,946	8,066	26,864
1978	1,081	4,570	4,297	3,059	13,007

- **Depreciation Expense** – The adjustment to reflect inflation was based on higher costs to replace the assets rather than the original purchase cost.

NET EARNINGS ADJUSTED FOR THE EFFECT OF INFLATION USING CURRENT COSTS

	FISCAL YEAR ENDED January 31, 1981	February 2, 1980
Net earnings from continuing operations as reported in the Consolidated Results of Operations on page 24	**$ 138,242**	$ 126,470
LIFO provision, net of tax	**18,037**	14,116
Net earnings before LIFO provision	**156,279**	140,586
Adjustments for estimates of our current costs:		
LIFO provision, net of tax	**(18,037)**	(14,116)
Additional depreciation on revalued property and equipment	**(22,275)**	(22,440)
Additional depreciation on revalued leased property and equipment	**(7,781)**	(5,447)
Net earnings adjusted using current costs	**108,186**	98,583
Dividends declared	**(45,448)**	(40,539)
Increase in retained earnings from continuing operations, adjusted using current costs	**$ 62,738**	$ 58,044
Net Earnings Per Share:		
As reported	**$5.80**	$5.33
Adjusted using current costs	**4.54**	4.15
Retained, adjusted using current costs	**2.63**	2.44

During periods of inflation, gains result from holding assets because of the increase in the prices that would have to be paid to acquire the assets. These gains are not included in the inflation-adjusted statements presented in this section. The following table compares the gains on assets held during the year under the two methods of inflation accounting.

	1980	1979
Constant dollar increase	**$195,811**	$178,535
Current cost increases:		
Inventory	**32,657**	26,864
Property and equipment	**130,603***	50,960
	163,260	77,824
Excess of constant dollar over current cost increases	**$ 32,551**	$100,711

*Includes Ayr-Way.

INFLATION-ADJUSTED STATEMENTS, USING CONSTANT DOLLARS

The financial statements on page 25 are restated below in average 1980 and 1979 dollars to reflect the effects of inflation over time. The restatement affects the same categories of assets and expenses as the current cost method. As previously explained, management believes the CPI-U is not an accurate index for our business.

CONSOLIDATED NET ASSETS (SHAREHOLDERS' INVESTMENT) ADJUSTED FOR THE EFFECT OF INFLATION USING CONSTANT DOLLARS

	January 31, 1981	February 2, 1980
Consolidated net assets (shareholders' investment) after adjustments to constant dollars	**$1,486,363**	$1,270,940

CONSOLIDATED RESULTS OF OPERATIONS ADJUSTED FOR THE EFFECT OF INFLATION USING CONSTANT DOLLARS

	FISCAL YEAR ENDED	
	Jan. 31, 1981	Feb. 2, 1980
Net earnings from continuing operations as reported in the Consolidated Results of Operations on page 24	**$138,242**	$126,470
LIFO provision, net of tax	**18,037**	14,116
Net earnings before LIFO provision	**156,279**	140,586
LIFO provision, net of tax	**(18,037)**	(14,116)
Adjustments for the change in purchasing power of dollars based on the CPI-U:		
Additional cost to replace inventories	**(35,210)**	(33,989)
Additional depreciation on revalued property and equipment	**(20,981)**	(18,001)
Additional depreciation on revalued leased property and equipment	**(4,467)**	(3,152)
Net earnings adjusted using constant dollars	**77,584**	71,328
Dividends declared	**(45,448)**	(40,539)
Increase in retained earnings from continuing operations, adjusted using constant dollars	**$ 32,136**	$ 30,789
Net earnings per share adjusted using constant dollars	**$3.25**	$3.00

Inflation affects the value of monetary assets and liabilities, such as cash, receivables and payables. Monetary assets lose purchasing power during inflationary periods because they purchase fewer goods and services, while monetary liabilities gain because less purchasing power is required to satisfy obligations. Since the Corporation had monetary liabilities in excess of monetary assets during 1980 and 1979, the net gains in purchasing power were $34,386 and $23,573, respectively.

COMPARISON OF SELECTED FINANCIAL DATA RESTATED TO AVERAGE 1980 DOLLARS

	FISCAL YEAR ENDED				
	Jan. 31, 1981	Feb. 2, 1980	Feb. 3, 1979	Jan. 28, 1978	Jan. 29, 1977
Revenues: (millions)					
as reported	**$4,033.5**	$3,384.8	$2,961.9	$2,494.7	$2,125.8
in average 1980 dollars	**4,033.5**	3,836.1	3,747.1	3,405.1	3,093.1
Percentage increase in revenues:					
as reported	**19%**	14%	19%	17%	15%
in average 1980 dollars	**5**	2	10	10	9
Cash dividends paid per common share:					
as reported	**$1.85**	$1.65	$1.45	$1.25	$ .96
in average 1980 dollars	**1.85**	1.87	1.83	1.71	1.40
Market price at year-end:					
as reported	**$45**	$46	$38	$37	$34
in average 1980 dollars	**43**	49	46	49	48
Average Consumer Price Index (1967 = 100)	**249.1**	219.8	196.9	182.5	171.2
Percentage increase in Consumer Price Index	**13%**	12%	8%	7%	6%

This schedule illustrates the effect of inflation on revenues, dividends and the market price of our Common Stock for 1980 and the four prior years restated into average 1980 dollars using the CPI-U. Because the CPI-U encompasses such costs as housing and energy, it does not properly reflect the impact of inflation on our revenues. Revenues per square foot adjusted by the BLS, a better though not absolute measure of specific inflation in our selling prices, have remained stable over the five-year period despite inflation.

When the CPI-U is applied to dividends or the market price of our stock, it does not necessarily reflect the change in earning power of the Corporation. Instead, the price/earnings ratio and market price should be compared to investments in other retail companies and other industries' investments. The Corporation's market price of its Common Stock has not increased as fast as general inflation. In 1980, our dividend increase did not keep pace with general inflation.

Pension and Stock Purchase Plans

(Thousands of Dollars, Except Per Share Data)

Pension Plans

The Corporation and its subsidiaries have four pension plans, which cover all eligible employees. The benefits which they will receive from the plans are defined by the respective plan agreements.

Contributions to the pension plans are made solely by the Corporation and are equal to the amount of pension plan expense determined by an outside actuarial firm. These contributions totaled $12,817 in 1980, $11,577 in 1979 and $10,201 in 1978. To compute pension expense, our actuarial firm estimates the total benefits which will ultimately be paid to eligible employees and then spreads these costs over future periods. In addition, assumptions are made on the years the employees will work, their future salary increases, the number of employees who will earn the right to receive benefits under the plans, and the rate of return (7%) which will be received on the plans' present assets and future contributions.

The amounts of benefits shown in the following statement are the present values of the total benefits which our employees had earned at the end of 1980. Our actuarial firm assumed a 7% rate of return in calculating these present values.

	December 31	
	1980	1979
Contribution receivable	**$ 1,398**	$ 922
Insurance contracts	**7,981**	8,100
Fixed income securities	**55,268**	31,109
Equity securities	**79,051**	73,582
Total Assets at Market (cost: 1980 $136,718; 1979 $108,803)	**$143,688**	$113,713
Vested benefits	**$123,536**	$118,246
Accrued benefits not vested	**7,409**	7,403
Unfunded liability of one plan	**(4,993)**	(14,482)
Excess of assets over benefits of three plans	**12,736**	2,546
Total Liabilities and Excess of Assets Over Benefits	**$143,688**	$113,713

Savings and Stock Purchase Plan

Most of the Corporation's employees who meet certain eligibility requirements (based primarily on age and length of employment) can join the Savings and Stock Purchase Plan. Mervyn's has not yet adopted the plan, so its employees are not eligible.

Employees can contribute up to 10% of their current gross cash compensation to the plan. The Corporation then contributes 50 cents for each dollar contributed by an employee up to 2½% of the employees' gross cash compensation. Employees are partially vested after they have been in the plan two years and are fully vested after six years.

The Corporation contributed $3,203 to the plan in 1980, $2,880 in 1979 and $2,718 in 1978.

	December 31	
	1980	1979
Investments at market value:		
Dayton Hudson Stock Fund	**$14,115**	$13,972
Fixed Income Fund	**25,482**	20,112
Equity Fund	**41,373**	31,797
Total Assets	**$80,970**	$65,881
Funds payable for securities and plan withdrawals	**$ 1,441**	$ 850
Plan equity	**79,529**	65,031
Total Liabilities and Equity	**$80,970**	$65,881

Stock Options, Performance Shares and Stock Appreciation Rights

The Corporation has four stock option plans for key employees. The 1976 Executive Long-Term Incentive Plan is the only one under which new grants are now made. New grants can be for stock options or performance shares, or both. Twelve months after the grant date, 25% of any options granted become exercisable and another 25% after each succeeding 12 months. The exercisable options are cumulative and expire no later than 10 years after the date of the grant. The performance shares pay cash and stock if certain selected performance goals are met at the end of a four-year period.

The 1972 Dayton Hudson Stock Option Plan granted stock options to certain eligible employees. These grants expire between five and 10 years after they were granted. Employees receiving these grants also received stock appreciation rights that allow them to surrender some of their options in exchange for shares of Common Stock of the Corporation. The number of shares of stock which they could receive is based on the difference between the price of the options and the market price of our Common Stock on the day the exchange takes place. Since current accounting principles require the Corporation to record expense for this difference, we encourage these employees to exercise options rather than the related stock appreciation rights.

Two of the plans apply only to Mervyn's. The 1969 plan granted stock options to certain eligible employees. The options expire up to five years from the date of grant. A 1976 Mervyn's Tandem Option Plan awarded stock options, stock appreciation rights and performance units which expire up to eight years from the grant date.

We base our expense accrual for stock appreciation rights on the likelihood that our employees will elect to exercise the rights rather than the related options. We record expense on performance shares and units based on either the grant price of the performance shares or the current market price of our Common Stock, and the extent to which the performance goals are being met. The Corporation recorded compensation expense of $1,208, $200 and $667 in 1980, 1979 and 1978. When employees exercise options, the total option price is credited to Common Stock and paid-in capital and no expense is incurred.

The number of shares of unissued Common Stock reserved for future grants under all the plans was 27,187 at the end of 1980

and 137,600 at the end of 1979. At January 31, 1981, outstanding options for 146,896 shares had stock appreciation rights attached and outstanding options for 69,416 shares had performance units attached.

	Options			Performance
	Number of Shares	Price Per Share	Shares Exercisable	Shares Outstanding a)
1978				
Outstanding, beginning of year	436,038	$ 7.35-$41.75	108,153	30,900
Granted	180,362	33.91- 43.19		
Cancelled	(24,361)	7.94- 37.25		
Exercised	(92,505)	7.35- 34.81		
1979				
Outstanding, beginning of year	499,534	7.35- 43.19	179,166	56,203
Granted	89,100	38.44- 40.19		
Cancelled	(41,421)	18.06- 59.88		
Exercised	(80,457)	7.35- 37.25		
1980				
Outstanding, beginning of year	466,756	7.94- 43.19	234,027	60,150
Granted	124,505	41.75- 49.44		
Cancelled	(29,373)	28.50- 49.44		
Exercised	(65,555)	7.94- 41.75		
Outstanding, end of year	496,333	$ 7.94-$49.44	253,518	67,475

a) Excludes performance shares issued in conjunction with options.

Report of Ernst & Whinney, Independent Auditors

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have examined the statements of financial position of Dayton Hudson Corporation and subsidiaries as of January 31, 1981 and February 2, 1980, and the related statements of results of operations, shareholders' investment and changes in financial position for each of the three years in the period ended January 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Dayton Hudson Corporation and subsidiaries at January 31, 1981 and February 2, 1980, and the results of their operations and changes in their financial position for each of the three years in the period ended January 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Minneapolis, Minnesota
March 20, 1981

Ernst & Whinney

Responsibility for Financial Statements and Accounting Controls

The preceding financial statements and related information have been prepared according to generally accepted accounting principles by the management of Dayton Hudson Corporation. Estimates and other amounts in these statements reflect management's best judgments. Management is responsible for the presentation, integrity, and consistency of the data in the Annual Report.

To discharge this responsibility, we maintain a comprehensive system of internal controls and organizational arrangements designed to provide reasonable assurance that assets are safeguarded from unauthorized use or disposition, transactions take place in accordance with management's authorization and are properly recorded, and financial records are adequate for preparation of financial statements and other financial information. The concept of reasonable assurance is based upon a recognition that there are inherent limitations in any system of internal controls because the cost of the controls should not exceed the benefit desired. After judging the cost and benefit factors, we believe the Corporation's system of internal controls provides this reasonable assurance.

To ensure the ongoing effectiveness of our internal control system, our goal is to recruit and employ highly qualified people, provide comprehensive written guidelines regarding procedural and ethical matters, and conduct effective training programs. We also provide and promote an environment which encourages free and open communication at all levels in our organization.

The members of the Audit Committee of the Board of Directors, none of whom is a present employee or officer of the Corporation, are shown on page 40 of this report. The committee recommends independent auditors for appointment by the Board of Directors, reviews their proposed services and their reports, and considers the possible effect of nonauditing services on their independence. The committee also specifies the duties and responsibilities of the internal auditors and reviews the internal audit program and their reports. Our independent auditors, Ernst & Whinney, our internal auditors, our general counsel and our corporate controller have full and free access to meet with the Audit Committee, with or without the presence of management. Regular meetings are held to discuss the results of their examinations and their opinions on the adequacy of internal controls and the quality of financial reporting.

The preceding financial statements have been audited by Ernst & Whinney, whose report appears on this page. The auditors' responsibility is to examine the Corporation's financial statements in accordance with generally accepted auditing standards. They render an opinion on their conformity with accounting principles which are generally accepted and consistently applied.

William A. Andres
William A. Andres
Chairman of the Board and Chief Executive Officer

Richard L. Schall
Richard L. Schall
Vice Chairman and Chief Administrative Officer

Willard C. Shull, III
Willard C. Shull, III
Senior Vice President, Finance

M. M. Pharr
Michael M. Pharr
Senior Vice President and Controller

Ten-Year Comparisons

Dayton Hudson Corporation and Subsidiaries

(Millions of Dollars, Except Per Share Data)

REVENUES
Cost of retail sales, buying and occupancy
Depreciation and amortization
Interest (income) expense
Interest and depreciation on capital leases
EARNINGS BEFORE INCOME TAXES
INCOME TAXES
NET EARNINGS (LOSS)
Continuing
Discontinued
Consolidated
PER COMMON SHARE
Net earnings (loss)
Continuing
Discontinued
Consolidated
Cash dividend declared
Shareholders' investment
RETURN ON BEGINNING SHAREHOLDERS' INVESTMENT
Continuing
Consolidated
CAPITAL EXPENDITURES
CONSOLIDATED YEAR-END FINANCIAL POSITION
Working capital
Property and equipment
Leased property under capital leases
Total assets
Long-term capital lease obligations
Long-term debt
Shareholders' investment
AVERAGE COMMON SHARES OUTSTANDING (Thousands)

The Ten-Year Comparisons should be read in conjunction with the Financial Statements.
(a) Earnings data for 1972 include extraordinary expense (as defined in 1972) of $0.7 million ($.04 per share).
(b) Consisted of 53 weeks.

1980	1979	1978 (b)	1977	1976	1975	1974	1973	1972 (a, b)	1971
$4,033.5	3,384.8	2,961.9	2,494.7	2,125.8	1,852.2	1,609.3	1,461.7	1,325.2	1,135.7
$2,842.6	2,353.4	2,055.4	1,731.6	1,480.1	1,285.2	1,148.1	1,043.8	955.1	813.4
$ 59.5	43.7	34.4	31.2	26.8	24.2	22.9	21.0	19.9	18.0
$ 5.2	(1.1)	8.2	9.9	8.9	9.0	14.7	13.5	13.2	12.7
$ 16.6	13.4	12.0	10.4	8.7	7.8	6.7	5.2	4.5	2.8
$ 250.3	240.7	198.9	187.2	153.9	126.3	59.6	55.6	52.7	44.9
$ 112.1	114.2	101.3	95.5	79.4	65.6	29.6	27.5	26.2	21.0
$ 138.2	126.5	97.6	91.7	74.5	60.7	30.0	28.1	26[illegible]	23.9
$ 8.5	65.6	167.3	6.2	2.5	(.1)	(.4)	2.1	2.9	2.0
$ 146.7	192.1	264.9	97.9	77.0	60.6	29.6	30.2	29.4	25.9
$ 5.80	5.33	4.12	3.89	3.18	2.63	1.31	1.24	1.17	1.08
$ .36	2.77	7.09	.27	.11	—	(.01)	.09	.13	.09
$ 6.16	8.10	11.21	4.16	3.29	2.63	1.30	1.33	1.30	1.17
$ 1.90	1.70	1.50	1.30	1.05	.72	.60	.54	.53	.50
$ 44.57	40.35	33.98	24.40	21.12	18.51	16.58	15.70	14.78	13.98
14.4%	15.6	16.8	18.4	17.1	16.0	8.4	8.3	8.4	8.1
15.2%	23.8	45.7	19.6	17.7	16.0	8.3	8.9	9.3	8.8
$ 265.2	218.2	156.1	104.9	76.1	33.4	48.7	40.0	43.7	31.5
$ 381.3	438.8	427.6	309.4	288.2	266.2	239.2	246.5	241.0	185.9
$ 872.2	629.8	472.2	379.7	317.2	280.0	274.3	260.6	249.3	244.4
$ 100.4	67.2	70.9	57.0	52.2	46.7	48.4	41.1	37.7	23.3
$2,155.2	1,793.2	1,637.5	1,411.4	1,213.1	1,083.2	954.9	909.5	849.5	789.7
$ 103.3	73.0	76.8	62.0	56.6	50.6	51.5	43.9	40.0	25.2
$ 213.8	117.6	94.3	116.8	111.7	123.8	147.2	164.0	176.4	153.0
$1,066.4	962.6	808.4	579.8	499.2	435.9	378.6	358.5	339.7	316.1
23,803	23,691	23,597	23,500	23,325	22,947	22,469	22,466	22,428	21,839

At the close of 1980, Dayton Hudson Corporation was operating 831 stores in 47 states, the District of Columbia and Puerto Rico.

Target

Target is a low-margin department store chain operating in 16 states located principally in the central corridor of the country. Target stores offer a merchandise mix of two-thirds convenience-oriented hardlines and one-third midrange fashion softlines.

Mervyn's

Mervyn's is a softlines retail company with stores in California, Arizona, New Mexico, Nevada, Oregon and Utah. Mervyn's stores feature a popularly priced balance of nationally branded and private-label apparel, accessories and household softgoods.

Department Stores

- Hudson's
- Dayton's
- Diamonds
- John A. Brown

The department store group consists of four regional companies: *Hudson's* in Michigan, Ohio and Indiana; *Dayton's* in Minnesota, North Dakota, South Dakota and Wisconsin; *Diamonds* in Arizona and Nevada; and *John A. Brown* in Oklahoma.

Specialty Merchandisers

- B. Dalton Bookseller
- Lechmere
- Dayton Hudson Jewelers

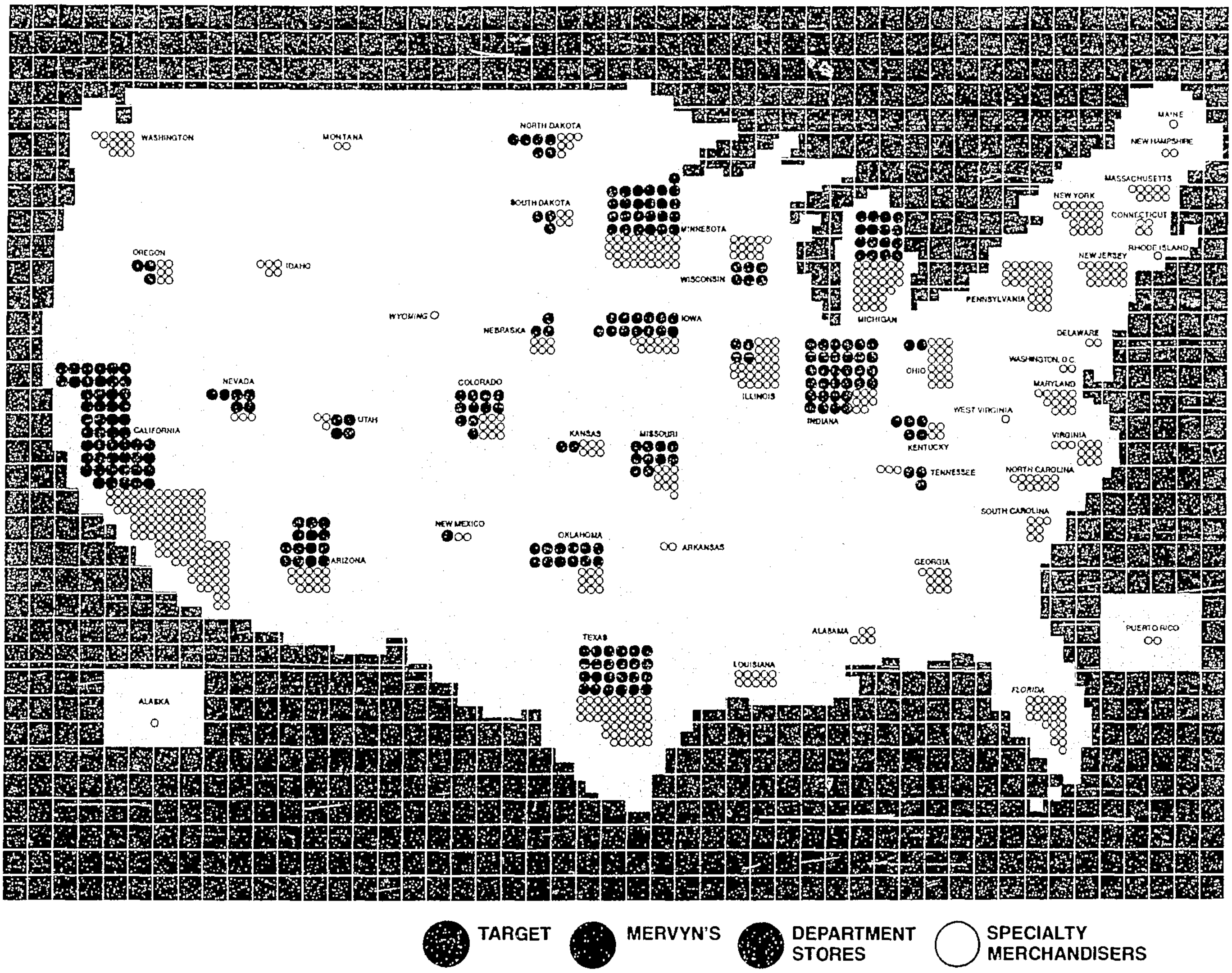
Specialty merchandising operations are conducted by three multi-store companies: *B. Dalton Bookseller,* a national bookstore chain; *Lechmere,* a New England hardlines retailer; and *Dayton Hudson Jewelers,* a group of six regional fine-jewelry retailers.

TARGET	No. of Stores	Retail Sq. Ft.* (000)
Colorado		
Colorado Springs	1	130
Denver	8	829
Ft. Collins	1	100
Grand Junction	1	100
Illinois		
Champaign	1	86
Danville	1	81
Moline	1	80
Mt. Carmel	1	58
Indiana		
Anderson	1	93
Bloomington	1	86
Carmel	1	82
Clarksville	1	86
Columbus	1	92
Crawfordsville	1	63
Evansville	2	176
Ft. Wayne	2	181
Huntington	1	61
Indianapolis	11	969
Kokomo	1	87
Lafayette	1	79
Muncie	1	84
New Albany	1	84
Richmond	1	69
Shelbyville	1	51
South Bend	3	262
Iowa		
Ames	1	45
Bettendorf	1	80
Cedar Rapids	2	180
Clinton	1	60
Des Moines	3	315
Dubuque	1	80
Fort Dodge	1	61
Mason City	1	50
Ottumwa	1	50
Sioux City	1	100
Kansas		
Wichita	2	200
Kentucky		
Louisville	5	427
Minnesota		
Duluth	1	96
Minneapolis-St. Paul	12	1,319
Missouri		
St. Louis	10	1,090
Nebraska		
Omaha	3	310
North Dakota		
Bismarck	1	80
Fargo	1	100
Grand Forks	1	100
Minot	1	80
Ohio		
Middletown	1	79
Oklahoma		
Oklahoma City	4	391
Tulsa	2	226
South Dakota		
Rapid City	1	100
Sioux Falls	1	100
Tennessee		
Memphis	3	300
Texas		
Austin	2	200
Dallas-Ft. Worth	10	1,104
Houston	10	1,085
Lubbock	1	100
Wichita Falls	1	100
Wisconsin		
Milwaukee	5	552
Total Target Stores	137	13,229

MERVYN'S	No. of Stores	Retail Sq. Ft.* (000)
Arizona		
Phoenix	6	504
California		
Bakersfield	1	100
Capitola	1	75
Chico	1	60
El Centro	1	64
Fresno	1	105
Lancaster	1	81
Lodi	1	68
Los Angeles	11	867
Marysville	1	66
Merced	1	60
Modesto	1	62
Sacramento	3	202
Salinas	1	60
San Bernardino	1	85
San Diego	2	163
San Francisco Bay Area	14	1,045
San Jose	6	499
Santa Rosa	1	53
Stockton	1	81
Visalia	1	60
Nevada		
Las Vegas	2	161
Reno-Sparks	2	127
New Mexico		
Albuquerque	1	114
Oregon		
Portland	3	277
Utah		
Salt Lake City	4	354
Total Mervyn's Stores	**69**	**5,393**

DEPARTMENT STORES	No. of Stores	Retail Sq. Ft.* (000)
Hudson's		
Detroit, MI	9	4,306
Pontiac, MI	1	289
Flint, MI	1	268
Kalamazoo, MI	1	124
Grand Rapids, MI	1	122
Ann Arbor, MI	1	187
Saginaw, MI.	1	122
Lansing, MI.	1	103
Toledo, OH	1	187
South Bend, IN	1	124
	18	5,832
Dayton's		
Minneapolis-St. Paul, MN.		
Department Stores	7	2,297
Home Stores	3	178
Rochester, MN	1	155
St. Cloud, MN	1	102
Fargo, ND	1	115
Grand Forks, ND	1	100
Sioux Falls, SD	1	100
La Crosse, WI	1	102
	16	3,149
Diamonds		
Phoenix, AZ	7	978
Tucson, AZ	1	98
Las Vegas, NV	2	166
	10	1,242
John A. Brown		
Oklahoma City, OK	4	431
Tulsa, OK	2	201
	6	632
Total Department Stores	50	10,855

Dayton Hudson Corporation



SPECIALTY MERCHANDISERS	No. of Stores	Retail Sq. Ft.* (000)
B. Dalton Bookseller		
Northeast	78	325
Southeast	86	298
Midwest	143	481
South Central	71	240
Northwest	26	82
Southwest	111	443
Puerto Rico	2	6
	517	1,875
Lechmere		
Boston, MA	4	751
Springfield, MA	1	159
Manchester, NH	1	82
	6	992

	No. of Stores	Retail Sq. Ft.* (000)
Dayton Hudson Jewelers		
J. E. Caldwell		
Philadelphia, PA	4	23
Harrisburg, PA	1	5
Moorestown, NJ	1	4
Wilmington, DE	1	2
Newark, DE	1	2
Washington, DC	1	6
Gaithersburg, MD	1	2
Bethesda, MD	1	3
	11	47
J. B. Hudson		
Minneapolis-St. Paul, MN	7	27
Rochester, MN	1	2
Omaha, NE	1	5
	9	34

	No. of Stores	Retail Sq. Ft.* (000)
J. Jessop & Sons		
San Diego, CA	8	25
C. D. Peacock		
Chicago, IL	7	37
Shreve's		
San Francisco, CA	7	26
Sacramento, CA	1	2
	8	28
C. W. Warren		
Detroit, MI	9	23
Total Jewelry Stores	52	194
Total Specialty Merchandisers	575	3,061
Total Retail	831	32,538

*Retail square feet is total square feet less office, warehouse and vacant space.

Board of Directors

William A. Andres, *Chairman of the Board* [b]

K. N. Dayton, *Chairman, Executive Committee* [b]

Bruce B. Dayton, *Former Chairman of the Board* [b]

Donald J. Hall, *President and Chief Executive Officer, Hallmark Cards, Inc. (greeting card manufacturer)* [a] [b]

Joseph L. Hudson, Jr., *Chairman of Hudson's*

Howard H. Kehrl, *Vice Chairman, General Motors Corporation (manufacturer of transportation equipment)* [a] [b]

Kenneth A. Macke, *President*

Bruce K. MacLaury, *President, The Brookings Institution (research and planning organization)* [a] [b]

David T. McLaughlin, *President-Elect, Dartmouth College* [b]

Mervin G. Morris, *Chairman Emeritus of Mervyn's* [a] [b]

Richard L. Schall, *Vice Chairman*

William H. Spoor, *Chairman of the Board and Chief Executive Officer, The Pillsbury Company (diversified food producer)* [b]

Paul N. Ylvisaker, *Dean of the Graduate School of Education, Harvard University* [b]

Shirley Young, *Executive Vice President, Grey Advertising, Inc. (advertising agency)* [b]

(a) Audit Committee
(b) Executive Committee

OFFICERS

William A. Andres, *Chairman and Chief Executive Officer*

Kenneth A. Macke, *President*

Richard L. Schall, *Vice Chairman and Chief Administrative Officer*

Aldo Papone, *Executive Vice President*

James T. Hale, *Senior Vice President and Secretary*

John F. Kilmartin, *Senior Vice President*

P. Gerald Mills, *Senior Vice President*

Michael M. Pharr, *Senior Vice President*

Willard C. Shull III, *Senior Vice President*

Wayne E. Thompson, *Senior Vice President*

Edwin H. Wingate, *Senior Vice President*

Peter Corcoran, *Vice President*

Karol D. Emmerich, *Vice President and Treasurer*

Linda L. Hoeschler, *Vice President*

Joseph L. Hudson, Jr., *Vice President*

Harry N. Jackson, *Vice President*

Allan L. Pennington, *Vice President*

Charles J. Shaffer, *Vice President*

Conley Brooks, Jr., *Assistant Treasurer*

William E. Harder, *Assistant Secretary*

William P. Hise, *Assistant Secretary*

OPERATING COMPANY MANAGEMENT

TARGET

Floyd Hall, *Chairman and Chief Executive Officer*

Bruce G. Allbright, *President*

MERVYN'S

John F. Kilmartin, *Chairman and Chief Executive Officer*

Wallace Kalina, *President and Chief Operating Officer*

DEPARTMENT STORES

Hudson's

P. Gerald Mills, *President and Chief Executive Officer*

Joseph L. Hudson, Jr., *Chairman*

Theodore A. Bintz, *Vice Chairman*

Dayton's

Bruce L. Burnham, *Chairman and Chief Executive Officer*

Diamonds

Arthur F. (Jim) Baumann, *Chairman and Chief Executive Officer*

John A. Brown

Thomas G. Payne, *President and Chief Executive Officer*

SPECIALTY MERCHANDISERS

B. Dalton Bookseller

Sherman A. Swenson, *Chairman and Chief Executive Officer*

Richard R. Fontaine, *President*

Lechmere

C. George Scala, *Chairman and Chief Executive Officer*

R. Michael Rouleau, *President*

Dayton Hudson Jewelers

George Tesar, *President and Chief Executive Officer*

CORPORATE INFORMATION

CORPORATE OFFICES

777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone (612) 370-6948

ANNUAL MEETING

The Annual Meeting of Shareholders is scheduled for 10 a.m. Wednesday, May 27, 1981, in the eighth-floor auditorium of Dayton's Department Store, 700 Nicollet Mall, Minneapolis, Minnesota.

10-K REPORT

A copy of the Form 10-K annual report filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended January 31, 1981, is available at no charge to shareholders. Write to Director, Financial Relations.

SHAREHOLDER INVESTMENT SERVICE

The Shareholder Investment Service is a convenient way for Dayton Hudson shareholders to acquire additional shares of the Corporation's Common Stock through automatic dividend reinvestment and voluntary cash purchase. All holders of Dayton Hudson Common Stock may participate. For more information, write to Director, Financial Relations.

TRANSFER AGENTS AND REGISTRARS

Common Stock;
$5 and $6 Preferred Stock
Northwestern National Bank of Minneapolis
The Northwestern Trust Company, New York

DIVIDEND AGENT

Common Stock;
$5 and $6 Preferred Stock
Northwestern National Bank of Minneapolis

TRUSTEES

7¾% Sinking Fund Debentures, Due 1994
First National Bank of St. Paul
9¾% Sinking Fund Debentures, Due 1995
First Trust Company of St. Paul
10⅞% Sinking Fund Debentures, Due 2005
First Trust Company of St. Paul

STOCK EXCHANGE LISTINGS

New York Stock Exchange
Pacific Stock Exchange
(Trading Symbol DH)

SHAREHOLDER ASSISTANCE

For assistance regarding individual stock records and transactions, contact:
Shareholder Relations
Dayton Hudson Corporation
777 Nicollet Mall
Minneapolis, Minnesota 55402
Telephone (612) 370-6735

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Dayton Hudson
Corporation
777 Nicollet Mall
Minneapolis, Minnesota 55402